The Papers of Charles Hamlin (mss24661)

363_03_001-	Hamlin, Charles S., Scrap Book – Volume 201, FRBoard Members

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Scrap Book - Volume 201
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 1, 1941

To The Files

Subject:

From Mr. Coe

mrc.

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

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Letter to all Governors of F.R. Banks re Excess Reserves and "Free Gold".

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Memo to Board from Mr. Smead re Revision of Weekly Federal Reserve Bank statement.

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Memo to Mr. Hamlin from Mr. Smead re Loans on securities of member banks in New York City.

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Substitute for Pages 2 and 3 of Mr. Goldenweiser's draft of "Direct Pressure".

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Memo to Mr. Hamlin from Mr. James re article written by country banker.

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Reasons for voting "No" on Dr. Miller's proposed amendment to the Annual Report.

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Memo to Mr. Pole from Mr. Smead re Banking resources in New York and other cities.

Confidential
February 11, 1930.

(With Chart)

Sm M.

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COULD WE HAVE 'CALCULATED PROSPERITY'?

Evidence That Credit Expansion Must Usually Precede a Revival of Trade and Employment.

These pages have often enough set forth the principle which seems to dominate the course of business activity, trade and employment. This is that throughout the last half century at least, trade and employment have grown pretty steadily at a fairly definite rate; and likewise the volume of bank credit. And the evidence appears to be that whenever trade and credit grow at materially differing rates there is trouble: inflation and exaggerated speculation, or deflation and unemployment and distress.

This seems clearly to have been true in each of the successive periods of business activity and depression since the close of the World War. Each time that the rate of credit expansion rose markedly above the calculated rate of business expansion there was a disturbance of business; and each time that bank credit has failed to expand at what appears to be the required rate to maintain business activity there has been trade depression and unemployment, and in the case of 1921 a great national disaster.

And this seems clearly the trouble now. The total of bank credit extended by the Weekly Reporting Banks in the Federal Reserve System is now 168 millions below what it was at this same period last year, and near to 600 millions below what it was a little before the panic in October. This latter is not a seasonal movement, for, save at the year-end and tax periods, the seasonal movements in total loans and investments are extremely small.

These Weekly Reporting Banks represent less than half of the total credit extended by all commercial banks of the country--to be exact, about 45 per cent. They are, however, an excellent sample of the whole, which means that for the whole country the deficit of credit is now considerable, and has been for over a year; and it seems clearly the preceding excess, and then deficit, and not the stock market panic, which was the predominant cause of the prevailing depression.

It is to the average man, and I believe especially to business men and bankers, very difficult to believe that so close a linkage between volume of trade and employment and volume of credit could subsist; therefore they find it difficult to believe that the maintenance of this continuous increase of credit should be the first concern of the Federal Reserve System. This evidence is as yet new and is understood even by few economists and banking authorities.

But the evidence in support of this conclusion seems to extend far back of the War. On the last of these pages will be found a new graph in which the variations in the growth of business and the increase of credit are contrasted.

As nearly as can be computed the total trade of the country, that is, the total of goods and services exchanged, has in later years been growing pretty steadily at about 4 per cent per year. Back of the War for a period it was nearer 5 per cent per annum, and farther back still, in the Seventies and Eighties, it was nearer 6 per cent per annum. In these earlier periods the total of trade was growing somewhat faster than the total of production, largely because of the wider and wider geographical exchange of goods. In later years the growth of trade and the growth of manufacture practically coincide.

What we call the Business Cycle--booms and depressions, are simply variations from this normal or usual rate of growth; and what is shown in the graph is simply these variations from this normal rate of growth, the excesses and the deficiencies. There is no other way to measure business cycles because of this persistent and almost never-ending growth. It is almost meaningless to compare production and trade of any given period with some particular previous year. For example, the rate of growth shown since 1922 is abnormal, or misleading, simply because 1921 represented the greatest decrease from a previous high point of any year in the last half century, that is, the most extreme depression for the time being in all the period for which we have careful measures.

Exactly the same with bank credit. The increase of bank credit since 1922 up to the end of 1928 was abnormal and excessive, mainly because the decrease in the volume of bank credit in 1921 was the heaviest that had been known since the crisis of 1893-'96. It was this excessive expansion of bank credit which was mainly responsible for the outburst of speculative mania in the last two years, and for the delusion that we had entered upon "a new era."

Exactly the same conditions, and relationships, appear to obtain as far back as trustworthy records extend. Our banking figures and likewise our measures of production and trade back of 1890 are scarcely as trustworthy as in later years; therefore the graph does not go back of this period.

Now, in the Eighties there was a great business and constructional boom, one of the very greatest that this country ever saw--far greater than anything known in the present generation--when they were building ten and twelve thousand miles of railroad in a single year, and a vast tide of population swept into the new and fertile Middle West (they thought <u>that</u> was a "new era," and with some justice, though it was not).

This boom extended up to the end of '92, when clouds began to appear. The greatest of these clouds was a sharp check to credit expansion. As will be seen on the graph, the <u>rate of increase</u> of bank credit in '90 and again in '92 was far above any probable increase in business. Then suddenly our gold began to go out, there was a serious disturbance to the currency and banking structure, and the panic of '93 was the result, inaugurating one of the most drastic trade depressions which this country ever saw.

It seems clear that one of the main causes of this prolonged depression was the continued check to credit supply. There was a sharp increase in 1894, followed by a considerable revival in trade in '95, and then another check to credit expansion, and then a renewal of the depression lasting pretty well through 1896.

Then came the great Flood of Gold from South Africa (and elsewhere) which was felt very soon in our credit structure with the resulting expansion which extended, with two sharp interruptions, through the next fifteen or sixteen years.

There was a severe banking panic in 1907, likewise clearly the result of excessive expansion through previous years, and then a sudden check to this expansion. But the gold flow continued, credit expansion was quickly renewed, and the next four or five years were years of general prosperity, despite the widespread outcry at the High Cost of Living.

Now, attentive study of the graph discloses that almost invariably credit expansion preceded business expansion, and almost invariably the check to credit expansion preceded the crises and panics which led to depression. In other words, it seems pretty clear that in the twenty or thirty years preceding the World War almost exactly the same conditions prevailed as since the close of the War. The narrow and seemingly fixed relationship between the growth of trade and the expansion of credit subsisted then just as clearly as it does now. In this regard the advent of the Federal Reserve System has apparently changed nothing.

The moral seems clear:

No Credit Expansion, No Business Revival.

A sustained trade revival in the absence of a corresponding expansion in credit seems never to have occurred; and in general it appears that a revival of trade has almost always preceded a revival in business. The application to the present situation is obvious.

Save for the short-lived expansion following the stock market panic (necessitated by the banks taking over large amounts of brokers' loans "for others"), we have had since November credit contraction. This contraction still continues. This last week it was heavier outside of New York City banks than in New York City, an indication that the business recession is spreading over the whole country. This is likewise the testimony of merchandise carloadings and of weekly debits outside of New York City, and especially outside of the ten largest financial centres.

Merchandise and miscellaneous carloadings (the best current index of the tendencies of business that we have) have now been for the last three months steadily below the similar periods of the last three years. Similarly bank debits outside the ten largest financial centres have been since last November conspicuously and continuously below the same period of the preceding year, for the first time in the last three years.

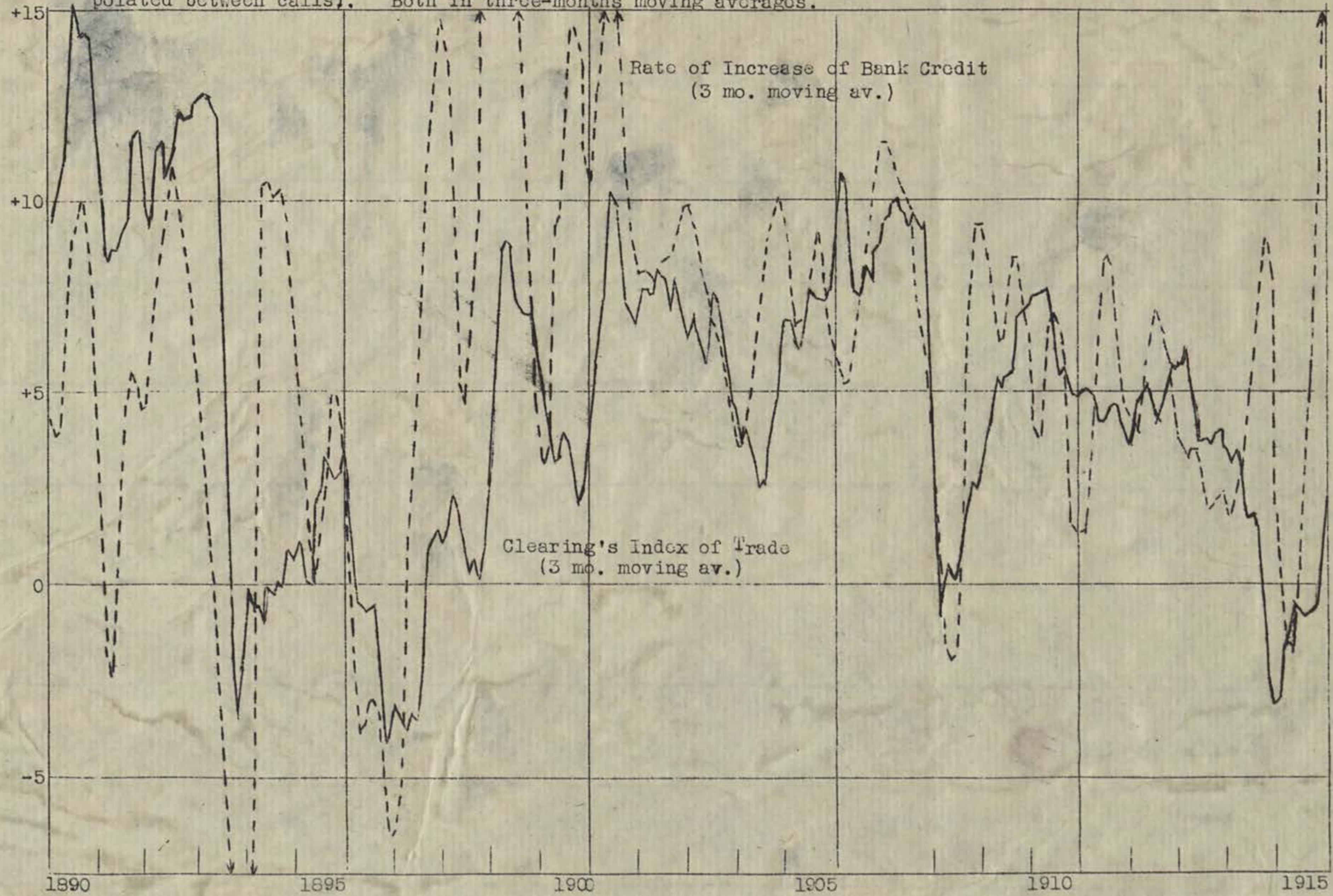
There is no clear evidence of a trade revival which does not include these two excellent barometers of business. In the mind of the writer there will be no trade revival until the present pressure for the contraction of credit is relieved and adequate measures are taken to bring about the necessary credit expansion.

B3

THE FLUCTUATIONS OF TRADE AND BANK CREDIT

February 11, 1930.

Below is shown our Clearings Index of Trade as percentages of variation from its normal line of growth, adjusted for changes in the General Price Level; and, second, the rate of increase (or decrease) of bank credit, compared with six months preceding (total loans and investments of National Banks, interpolated between calls). Both in three-months moving averages.



Sen Bk

B31

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 10, 1930
St. 6452

SUBJECT: Excess Reserves and "Free Gold."

Dear Sir:

For some time past the Board's Division of Bank Operations has been compiling figures of excess reserves and of "free gold" for each Federal reserve bank and for the System as a whole. Excess reserves, as you know, are determined by deducting from total cash reserves the 35 per cent reserve required against deposits plus the 40 per cent reserve required against Federal reserve notes in circulation. "Free gold," as distinguished from excess reserves, is obtained by deducting from excess reserves the amount (if any) by which gold required as collateral against outstanding notes and for the gold redemption fund exceeds the required 40 per cent note reserve.

Inasmuch as practically all of the Federal reserve banks now find it necessary to deposit more gold as collateral against Federal reserve notes issued to them than is required as reserve against notes in circulation, it is apparent that any change in the amount of Federal reserve notes which the banks carry in their cash will ordinarily result in a similar change in the amount of gold collateral required and will affect the free gold figure correspondingly. As an example of such changes, on October 30 the Federal reserve banks and branches held $449,000,000 of Federal reserve notes, whereas on December 18 they held $575,000,000, an increase for the period of $126,000,000 which resulted in a corresponding reduction in the amount of free gold. The fluctuation in the amount of Federal reserve notes held by the Federal reserve banks is at times quite material even from week to week, the amount held on December 24 being $58,000,000 less than the week before.

2.

For statistical purposes, therefore, the Board would like to have you estimate the average minimum amount of Federal reserve notes which would have to be carried in the cash holdings of your head office and each branch to insure the efficient operation of the cash department. In furnishing such figures please state separately: (1) the amount of notes needed to meet currency shipments and over the counter payments, and (2) the average amount of

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St. 6452

notes you are compelled to carry temporarily while they are being counted and sorted. Do not include in these estimates either unfit notes in transit to the Treasury from your bank or notes of your bank in transit from other Federal reserve banks to the Treasury or to your bank.

In furnishing the Board with the above figures, will you also be good enough to state whether in your opinion it would be practicable, if for any reason the System's gold holdings should decline materially, for the Federal reserve banks and branches to operate without carrying any Federal reserve notes in their own cash, apart from notes being sorted or in transit. This would mean, of course, that a Federal reserve bank would have to obtain currency from the agent whenever it made payments of Federal reserve notes. This would be a radical departure from present practice, but the Board is interested in knowing whether such a plan would seriously interfere with the smooth operation of the cash department.

Very truly yours,

Roy A. Young,
Governor.

TO GOVERNOR OF EACH FEDERAL RESERVE BANK*

Sec RA

P33

January 16, 1930

To: Federal Reserve Board

From: Mr. Smead

SUBJECT: Revision of Weekly Federal Reserve Bank statement.

For some time past it has been increasingly evident that there is not sufficient information in the weekly condition statement of the Federal reserve banks or in the analysis accompanying it to give the public an adequate idea of the factors accounting for the changes in reserve bank credit outstanding. During the past few months we have given considerable thought to the advisability of revising the statement somewhat and to changing materially the analysis so as to make it bring out clearly not only the amount of reserve bank credit outstanding but the changes in the factors accountable therefor. With this in mind we desire to recommend that certain changes be made in the condition statement and in the analysis beginning with the statement for January 22.

The proposed changes in the analysis represent a marked departure from the present form of analysis and will be discussed first. As indicated above, it is proposed to show in the analysis total reserve bank credit, instead of total bills and securities as heretofore. The difference between total bills and securities and total reserve bank credit is made up of balances due from foreign banks and of the net float carried by the reserve banks. The factors affecting reserve bank credit are monetary gold stock and Treasury currency on the one hand and money in circulation, member bank reserve balances and unexpended capital funds, nonmember deposits, etc., on the other. The sum of total reserve bank credit plus monetary gold stock and Treasury currency-adjusted is always equal to the amount of money in circulation plus member bank reserve balances and unexpended capital funds, nonmember deposits, etc. An increase in the monetary gold stock or in Treasury currency results in a decrease in reserve bank credit, whereas an increase in money in circulation, member bank reserve balances, or net capital funds, results in an increase in reserve bank credit. The items which currently undergo material fluctuations are monetary gold stock, money in circulation and member bank reserve balances, and it is these items which ordinarily will be referred to in the analysis as being responsible for changes in reserve bank credit.

In both the consolidated and the detailed statement of condition we would recommend that the gold reserves of the Federal reserve banks be shown as one item instead of six as at present. The total gold reserve is the only item of any material significance as the others merely relate to the location of the gold and their publication in the Bulletin would seem to be sufficient. Furthermore, it is probably well to get the public to thinking in terms of monetary gold stock, which it is proposed to show in the analysis sheet, rather than in terms of the gold reserves of the Federal reserve banks and especially the location of such reserves.

It is also proposed to show Federal reserve notes of other banks separately instead of combining them with uncollected items as heretofore. This separation will enable one interested to obtain a net figure for Federal reserve notes in actual circulation, and also to obtain the actual net float carried by Federal reserve banks due to transit and collection items.

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The Federal reserve note statement as now printed on the detailed liability page shows the amount of notes received by the Federal reserve agents from the Comptroller of the Currency and the amount held by the agents. Changes from week to week in neither of these items have any significance to the public as they merely relate to the unissued stock of Federal reserve currency that happens to be held by the Federal reserve agents. It is proposed, therefore, to omit these items and instead to show (1) Federal reserve notes issued to Federal reserve bank by Federal reserve agent (2) Federal reserve notes held by Federal reserve bank and (3) Federal reserve notes in actual circulation. The deduction of Federal reserve notes held by the Federal reserve banks from notes issued to them by the agents brings out clearly how the amount of notes in actual circulation is arrived at. This is not brought out in the statement as now published. Under the heading of collateral held by Federal reserve agents as security for notes issued to the banks it is proposed to show one item for gold instead of two as at present.

If the suggested change as regards gold reserves is adopted it will also be possible to show the maturity distribution of bills and short term securities at the bottom of the resource statement where it properly belongs, instead of at the bottom of the liability statement as at present.

There is attached hereto a condition statement for January 8, 1930, in the revised form recommended herein. There is also attached a proposed memorandum to accompany the analysis for the first week explaining in detail the changes, both in the analysis and in the condition statement.

(St. 6461)

STATEMENT FOR THE PRESS

Released for publication, Friday morning, Jan. 9;

St. 6461
Federal Reserve Board,
January 10, 1930.

CONDITION OF FEDERAL RESERVE BANKS

Beginning with this week the comments accompanying the condition statement of the Federal reserve banks will be presented in somewhat different form than previously. The revised statement will show comparisons between changes in the total volume of reserve bank credit and in the factors accounting for increases or decreases in the demand for such credit. An explanation of these factors and of certain changes in the condition statement is presented in the attached statement.

The daily average volume of Federal reserve bank credit outstanding during the week ending January 8 as reported by the Federal reserve banks was $1,575,000,000, a decrease of $106,000,000 compared with the preceding week, and of $176,000,000 compared with the corresponding week of 1929. On January 8 total reserve bank credit outstanding was $1,420,000,000, a decrease of $162,000,000 for the week. This resulted from a decrease of $175,000,000 in the amount of money required for circulation purposes, and an increase of $6,000,000 in Treasury currency, offset by an increase of $12,000,000 in member bank reserve balances and a withdrawal of $6,000,000 from the monetary gold stock.

Holdings of discounted bills declined $65,000,000 during the week at all Federal reserve banks, $41,000,000 at New York, $16,000,000 at Chicago, $9,000,000 at Philadelphia, and $6,000,000 at Richmond, and increased $6,000,000 at Atlanta. The System's holdings of bills bought in open market declined $73,000,000 and of U. S. securities $26,000,000.

Changes in the amount of reserve bank credit outstanding and in the factors accounting for such changes during the week and the year ending January 8, 1930, are as follows:

	Jan. 8, 1930	Increase or decrease since Dec. 31, 1929	Jan. 9 1929
	(In millions of dollars)		
Bills discounted	568	- 64	- 309
Bills bought	319	- 73	- 158
United States securities	485	- 26	+ 246
Other reserve bank credit	48	+ 1	+ 4
TOTAL RESERVE BANK CREDIT	1,420	- 162	- 217
Monetary gold stock	4,277	- 6	+ 157
Treasury currency - adjusted	1,784	+ 6	- 8
Money in circulation	4,690	- 175	- 72
Member bank reserve balances	2,367	+ 12	- 38
Unexpended capital funds, nonmember deposits, etc.	423	-	+ 40

(St. 6461)

Federal Reserve Board
January 23, 1930

NEW ITEMS IN TEXT ACCOMPANYING WEEKLY FEDERAL RESERVE BANK STATEMENT

Reserve Bank Credit. Reserve bank credit outstanding comprises, in addition to the total bill and security holdings of the Federal reserve banks, credit given member banks for transit items in advance of their actual collection and funds deposited in foreign banks.

Monetary gold stock. Monetary gold stock includes all gold coin in circulation and gold held by the United States Treasury and the Federal reserve banks, except gold earmarked for foreign account. Changes in monetary gold stock, which arise through imports and exports, through earmarking or releases from earmark, and through domestic production (in excess of industrial consumption), have a corresponding effect on reserve bank credit. Increases in the gold stock diminish the demand for reserve bank credit, and decreases in the gold stock increase the demand for such credit.

Treasury currency - adjusted. Treasury currency-adjusted includes all the currency in the United States, except gold coin and Federal reserve notes, less gold and other cash held by the Treasury and deposits of the Treasury with the Federal reserve banks. This item represents the net amount of currency outstanding that is based primarily on Treasury credit, and changes in this item have the same effect on the demand for reserve bank credit as changes in the stock of monetary gold.

Money in circulation. Money in circulation includes all kinds of United States money outside of the Treasury and the Federal reserve banks, and changes in this item, rather than in Federal reserve notes alone, reflect changes in the demand for currency by the public. Changes in the demand for currency for circulation purposes are the principal cause of seasonal changes in the volume of reserve bank credit outstanding.

Member bank reserve balances. Member bank reserve balances comprise the entire legal reserves of member banks, and average changes in these balances, which are subject to substantial day-to-day fluctuations, reflect changes in member bank deposits against which they are held. Member bank reserve balances is the item in the Federal reserve bank statement that is directly influenced by changes in the volume of member bank credit.

Unexpended capital funds, nonmember deposits, etc. This heading combines a number of items which do not change greatly from week to week. Changes in nonmember deposits with the reserve banks have the same effect on the demand for reserve bank credit as changes in member bank balances. Changes in unexpended capital funds also have the same effect. This item measures the extent to which the paying in of capital to the reserve banks and their subsequent earnings have taken funds out of the market, and comprises capital, surplus, and undistributed earnings less amounts returned to the market principally through the purchase of bank premises. Some of the above factors are the principal components of "all other resources" and "all other liabilities" in the weekly statement and accordingly the amount of unexpended capital funds, etc., is arrived at by subtracting from "capital," "surplus," and "all other liabilities" the items "bank premises" and "all other resources."

For a somewhat more detailed explanation of the factors affecting the amount of reserve bank credit reference may be had to an article on page 432 of the Federal Reserve Bulletin for July 1929.

CHANGES IN CONDITION STATEMENT

Gold reserves. Detailed data giving the distribution of the gold reserves, week to week changes in which are rarely significant, have been eliminated from the statement. Publication of these figures in the Federal Reserve Bulletin, however, will be continued.

Federal reserve notes. The amount of Federal reserve notes held at Federal reserve banks other than the issuing bank is shown separately; heretofore such notes have been included in "Uncollected items." The object of this change is to make it possible to determine from the weekly statement the amount of Federal reserve notes outside of the Federal reserve banks, and also the net float carried by the reserve banks which arises principally from giving credit for checks and other cash items, in accordance with published time schedules, in advance of actual collection.

The amount of Federal reserve notes received from the Comptroller of the Currency and of notes held by the Federal reserve agents have been omitted from the Federal reserve note statement and the remaining items have been rearranged with a view to bringing out more clearly the difference between Federal reserve notes issued to the reserve banks, against which 100 per cent collateral of gold or eligible paper must be pledged with the Federal reserve agents, and notes in circulation against which a reserve of 40 per cent in gold is required. Gold held as collateral for Federal reserve notes is also counted as a part of the required reserve against notes in circulation.

STATEMENT FOR THE PRESS

Released for publication
Friday morning, Jan. 10;
not earlier.

St. 6448
Federal Reserve Board
January 9, 1930.

CONDITION OF FEDERAL RESERVE BANKS

The consolidated statement of condition of the Federal reserve banks on January 8, made public by the Federal Reserve Board, shows decreases for the week of $64,800,000 in holdings of discounted bills, of $73,000,000 in bills bought in open market and of $25,700,000 in U. S. securities. Member bank reserve deposits increased $12,000,000 and cash reserves $94,200,000, while Federal reserve note circulation declined $72,900,000 and Government deposits $5,000,000. Total bills and securities were $163,200,000 below the amount reported a week ago.

Holdings of discounted bills declined $40,600,000 at the Federal Reserve Bank of New York, $15,700,000 at Chicago, $9,100,000 at Philadelphia and $6,400,000 at Richmond, and increased $6,300,000 at Atlanta. The System's holdings of bills bought in open market declined $73,000,000, of U. S. bonds $4,500,000 and of Treasury notes $35,000,000, while holdings of certificates and bills increased $13,700,000.

Federal reserve note circulation was $72,900,000 less than a week ago, all of the Federal reserve banks except Minneapolis reporting decreases for the week, the largest declines being: Boston $13,500,000, New York $10,900,000, Philadelphia and Chicago $9,200,000 each, Richmond $8,800,000 and San Francisco $7,000,000.

A summary of the principal assets and liabilities of the reserve banks, together with changes during the week and the year ending January 8, 1930, follows:

		Increase or decrease since	
	Jan. 8,1930	Dec. 31,1929	Jan. 9,1929
	(In thousands of dollars)		
Total reserves	3,105,130	+ 94,202	+ 322,023
Gold reserves	2,929,347	+ 72,296	+ 297,675
Total bills and securities	1,384,324	- 163,193	- 218,390
Bills discounted, total	567,615	- 64,806	- 308,932
Secured by U. S. Govt. obligations	319,217	- 34,342	- 238,969
Other bills discounted	248,398	- 30,464	- 69,963
Bills bought in open market	319,167	- 73,042	- 157,933
U.S. Government securities, total	484,842	- 25,745	+ 245,600
Bonds	72,304	- 4,513	+ 19,638
Treasury notes	180,624	- 34,980	+ 67,199
Certificates and bills	231,914	+ 13,748	+ 158,763
Federal reserve notes in circulation	1,836,854	- 72,869	+ 91,592
Total deposits	2,422,299	+ 8,624	- 29,940
Members' reserve deposits	2,367,250	+ 11,987	- 37,428
Government deposits	23,871	- 4,981	+ 9,768

Gold held excl. in MN. 1759 266

Gold in banks incl. Gold sett fund 1,170 081

Tot gold Res 2,929,347

2929,347
1759,266
1170 081

1170 081
1179 266
2349347

2929347

1,759 266
1,170 081
2,929 347

534 305
635 776
1,170,081

Released for publication day morning, January 10,1930; earlier. St. 6443a

RESOURCES AND LIABILITIES
OF THE TWELVE FEDERAL RESERVE BANKS COMBINED

(In thousands of dollars)

RESOURCES	Jan. 8,1930	Dec. 31,1929	Jan. 9,1929
~~Gold with Federal reserve agents~~	~~1,685,479~~	~~1,676,918~~	~~1,219,166~~
~~Gold redemption fund with U. S. Treasury~~	~~73,787~~	~~73,287~~	~~73,400~~
~~Gold held exclusively against F.R.notes~~	~~1,759,266~~	~~1,750,205~~	~~1,292,566~~
~~Gold settlement fund with F. R. Board~~	~~534,305~~	~~511,243~~	~~684,091~~
~~Gold and gold certificates held by banks~~	~~635,776~~	~~595,603~~	~~655,015~~
Total gold reserves	2,929,347	2,857,051	2,631,672
Reserves other than gold	175,783	153,877	151,435
Total reserves	3,105,130	3,010,928	2,783,107
Non-reserve cash	85,674	81,909	99,091
Bills discounted:			
Sec. by U. S. Government obligations	319,217	353,559	558,186
Other bills discounted	248,398	278,862	318,361
Total bills discounted	567,615	632,421	876,547
Bills bought in open market	319,167	392,209	477,100
U. S. Government securities:			
Bonds	72,304	76,817	52,666
Treasury notes	180,624	215,604	113,425
Certificates and bills	231,914	218,166	73,151
Total U.S. Government securities	484,842	510,587	239,242
Other securities	12,700	12,300	9,825
Total bills and securities	1,384,324	1,547,517	1,602,714
Due from foreign banks	724	721	729
Uncollected items	633,601 ~~674,493~~	748,736	691,004
F.R. notes of other banks	40,892		
Bank premises	58,149	57,359	58,591
All other resources	11,788	11,275	7,678
TOTAL RESOURCES	5,320,282	5,458,445	5,242,914
LIABILITIES			
F. R. notes in actual circulation	1,836,854	1,909,723	1,745,262
Deposits:			
Member bank - reserve account	2,367,250	2,355,263	2,404,678
Government	23,871	28,852	14,108
Foreign bank	6,048	5,710	5,853
Other deposits	25,130	23,850	27,600
Total deposits	2,422,299	2,413,675	2,452,239
Deferred availability items	598,980	672,922	629,574
Capital paid in	170,367	170,973	146,826
Surplus	276,936	276,936	254,398
All other liabilities	14,846	14,216	14,615
TOTAL LIABILITIES	5,320,282	5,458,445	5,242,914
Ratio of total reserves to deposit and F. R. note liabilities combined	72.9%	69.6%	66.3%
Contingent liability on bills purchased for foreign correspondents	527,816	547,962	333,971

C.

St. 6448b

RESOURCES AND LIABILITIES OF THE FEDERAL RESERVE BANKS ON JANUARY 8, 1930
(In thousands of dollars)

R E S O U R C E S

	Total	Boston	New York	Phila.	Cleve.	Rich.	Atlanta	Chicago	St. Louis	Minn.	Kans.Cy.	Dallas	San Fran.
~~Gold with Federal Reserve Agents~~	1,685,479	229,917	238,594	129,000	130,900	71,401	115,130	289,564	81,330	63,157	75,000	34,723	226,763
~~Gold redemption fund with U.S.Treasury~~	73,787	6,928	16,814	4,920	6,493	3,180	3,169	11,420	5,734	3,970	3,241	1,459	6,459
~~Gold held exclusively against F. R. notes~~	1,759,266	236,845	255,408	133,920	137,393	74,581	118,299	300,984	87,064	67,127	78,241	36,182	233,222
~~Gold settlement fund with F.R.Board~~	534,305	13,026	182,001	23,543	78,796	15,340	8,442	77,345	18,050	14,949	46,969	18,552	37,292
~~Gold and gold certif. held by banks~~	635,776	34,947	369,754	40,527	44,768	12,326	3,571	77,093	5,778	4,311	6,470	9,032	27,199
Total gold reserves	2,929,347	284,818	807,163	197,990	260,957	102,247	130,312	455,422	110,892	86,387	131,680	63,766	297,713
Reserves other than gold	175,783	18,850	56,878	15,105	9,915	7,849	16,118	15,532	9,628	3,163	7,056	4,428	11,261
Total reserves	3,105,130	303,668	864,041	213,095	270,872	110,096	146,430	470,954	120,520	89,550	138,736	68,194	308,974
Non-reserve cash	85,674	11,322	15,429	4,340	5,925	5,707	5,745	12,651	7,366	2,532	2,397	4,320	7,940
Bills discounted:													
Secured by U.S.Govt. obligations	319,217	10,718	109,339	24,630	47,161	7,135	3,712	61,734	11,672	2,281	13,888	3,657	23,290
Other bills discounted	248,398	11,726	21,838	32,065	31,809	25,426	31,916	35,185	7,198	6,923	19,391	12,513	12,408
Total bills discounted	567,615	22,444	131,177	56,695	78,970	32,561	35,628	96,919	18,870	9,204	33,279	16,170	35,698
Bills bought in open market	319,167	16,463	152,336	7,361	17,698	11,213	18,465	32,358	10,300	7,285	3,417	8,886	33,385
U. S. Government securities:													
Bonds	72,304	3,551	13,657	3,658	4,055	3,441	23	25,438	3,044	5,927	-	9,510	-
Treasury notes	180,624	6,072	96,723	13,818	12,221	1,443	3,442	11,763	12,765	5,653	263	5,861	10,600
Certificates and bills	231,914	16,227	104,876	24,330	13,203	4,675	5,386	31,234	13,457	4,858	2,800	9,652	1,216
Total U.S. Govt. securities	484,842	25,850	215,256	41,806	29,479	9,559	8,851	68,435	29,266	16,438	3,063	25,023	11,816
Other securities	12,700	1,000	7,550	1,000	1,500	-	-	1,500	30	120	-	-	-
Total bills and securities	1,384,324	65,757	506,319	106,862	127,647	53,333	62,944	199,212	58,466	33,047	39,759	50,079	80,899
Due from foreign banks	724	53	240	70	72	30	26	96	26	17	22	22	50
F. R. notes of other banks.													
Uncollected items	674,493	65,638	175,435	60,206	61,984	50,294	23,449	81,272	34,154	14,791	42,350	28,735	36,185
Bank premises	58,149	3,580	15,664	1,762	7,058	3,194	2,658	8,295	3,811	2,018	3,972	1,876	4,261
All other resources	11,788	95	3,542	144	1,039	711	3,867	628	351	501	178	368	364
TOTAL RESOURCES	5,320,282	450,113	1,580,670	386,479	474,597	223,365	245,119	773,108	224,694	142,456	227,414	153,594	438,673

C

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LIABILITIES

RESOURCES AND LIABILITIES OF THE FEDERAL RESERVE BANKS ON JANUARY 8, 1930

St. 6448c

(In thousands of dollars)

	Total	Boston	New York	Phila.	Cleve.	Rich.	Atlanta	Chicago	St.Louis	Minn.	Kans.Cy.	Dallas	San Fran.
F.R.notes in actual circulation	1,836,854	193,015	308,083	153,107	185,635	89,873	137,622	295,337	91,931	67,283	87,675	44,904	182,389
Deposits:													
Member bank - reserve account	2,367,250	155,888	956,073	136,325	183,805	65,233	63,687	340,151	79,693	51,866	88,944	64,995	180,590
Government	23,871	3,627	2,911	473	1,249	3,049	2,673	1,826	1,588	1,274	1,015	2,020	2,166
Foreign bank	6,048	406	2,365	532	549	230	198	735	198	126	165	165	379
Other deposits	25,130	102	12,672	45	1,415	308	144	758	997	285	251	283	7,870
Total deposits	2,422,299	160,023	974,021	137,375	187,018	68,820	66,702	343,470	82,476	53,551	90,375	67,463	191,005
Deferred availability items	598,980	63,531	148,193	52,289	55,935	45,152	22,630	71,755	32,758	10,561	35,367	27,180	33,629
Capital paid in	170,367	11,593	66,701	16,467	15,632	6,062	5,409	20,007	5,260	3,083	4,288	4,452	11,413
Surplus	276,936	21,751	80,001	26,965	29,141	12,496	10,857	40,094	10,877	7,143	9,162	8,935	19,514
All other liabilities	14,846	200	3,671	276	1,236	962	1,899	2,445	1,392	835	547	660	723
TOTAL LIABILITIES	5,320,282	450,113	1,580,670	386,479	474,597	223,365	245,119	773,108	224,694	142,456	227,414	153,594	438,673
Reserve ratio (per cent)	72.9	86.0	67.4	73.4	72.7	69.4	71.7	73.7	69.1	74.1	77.9	60.7	82.7
Contingent liability on bills purchased for foreign correspondents	527,816	38,890	175,179	50,977	52,554	22,073	18,919	70,422	18,919	12,087	15,766	15,766	36,262
F.R.notes on hand (notes rec'd from													

FEDERAL RESERVE NOTE STATEMENT

	Total	Boston	New York	Phila.	Cleve.	Rich.	Atlanta	Chicago	St.Louis	Minn.	Kans.Cy.	Dallas	San Fran.
Federal reserve notes:													
Issued to F.R.bank by F.R.Agent	2,363,528	262,206	439,461	183,794	218,467	108,318	168,891	375,601	110,336	74,002	100,891	54,214	267,347
Held by Federal reserve bank	526,674	69,191	131,378	30,687	32,832	18,445	31,269	80,264	18,405	6,719	13,216	9,310	84,958
In actual circulation	1,836,854	193,015	308,083	153,107	185,635	89,873	137,622	295,337	91,931	67,283	87,675	44,904	182,389
Collateral held by agent as security for notes issued to bank:													
Gold	1,685,479	229,917	238,594	129,000	130,900	71,401	115,130	289,564	81,330	63,157	75,000	34,723	226,763
Eligible paper	854,099	38,830	262,370	56,330	94,534	43,297	54,011	128,964	29,068	16,297	36,507	24,989	68,902
Total collateral	2,539,578	268,747	500,964	185,330	225,434	114,698	169,141	418,528	110,398	79,454	111,507	59,712	295,665

MATURITY DISTRIBUTION OF BILLS AND SHORT TERM SECURITIES

	Total	Within 15 days	16 to 30 days	31 to 60 days	61 to 90 days	91 days to 6 months	Over 6 months
Bills discounted	567,615	439,800	34,874	49,823	30,247	12,310	561
Bills bought in open market	319,167	207,684	42,908	45,295	22,684	596	-
Certificates and bills	231,914	-	-	-	87,793	79,266	64,855
Municipal warrants	150	103	-	-	-	47	-

Transfer to Resource page.

C

Form NO. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bd

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Date March 4, 1930

To Mr. Hamlin

Subject: Loans on securities of member banks in New York City

From Mr. Smead

2-8495

In response to your memorandum of March 1, we have prepared and and are handing you herewith certain figures relating to security loans of reporting member banks in New York City.

In your memorandum you asked for figures of security loans to customers. By this I assume you mean security loans to others than brokers and dealers. We did not begin to collect separate figures of security loans to brokers and dealers until the beginning of 1926. Prior to that date, however, we did have certain daily confidential figures of "street loans" which were made by the principal banks in New York City, although not necessarily the same banks that submitted weekly figures. However, at the time that the weekly reports of brokers' loans were inaugurated in January 1926, the weekly figures exceeded the daily figures by only a relatively small amount. I am giving you, therefore, total security loans beginning with February 1922 to June 1929, "street loans" from February 1922 to June 1925, and loans to brokers and dealers from February 1926 to June 1929.

At the end of 1928 the weekly reporting banks in New York City began furnishing the Federal reserve bank with a segregation of their brokers' loans showing (a) loans to customers and (b) loans to non-customers. Brokers' loans made to customers constituted about 35 per cent of brokers' loans made by New York banks for their own account in February 1929 and increased to about 45 per cent in June. On the last report date, February 26, 1930, such customer ' brokers' loans constituted about 41.6 per cent of total brokers' loans.

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TOTAL LOANS ON SECURITIES OF WEEKLY REPORTING MEMBER BANKS IN NEW YORK CITY AND "STREET LOANS" OF DAILY REPORTING BANKS, FEBRUARY-JUNE 1922-1925
(In millions of dollars)

	Total loans on securities	Street loans*	Excess of Column 1 over Column 2
1922			
February 1	1,355	551	804
8	1,330	517	813
15	1,340	520	820
21	1,309	484	825
March 1	1,338	522	816
8	1,310	488	822
15	1,348	543	805
22	1,360	558	802
29	1,354	576	778
April 5	1,389	612	777
12	1,336	584	752
19	1,423	660	763
26	1,433	681	752
May 3	1,452	693	759
10	1,470	718	752
17	1,554	774	780
24	1,558	775	783
31	1,586	789	797
June 7	1,587	810	777
14	1,601	824	777
21	1,634	867	767
1923			
February 7	1,538	774	764
14	1,570	808	762
21	1,611	818	793
28	1,642	865	777
March 7	1,540	813	727
14	1,520	800	720
21	1,569	838	731
28	1,561	813	748
April 4	1,621	863	758
11	1,543	776	767
18	1,547	768	779
25	1,559	806	753
May 2	1,642	865	777
9	1,572	810	762
16	1,549	787	762
23	1,551	785	766
29	1,548	779	769
June 6	1,546	755	791
13	1,541	750	791
20	1,497	746	751

	Total loans on securities	Street loans *	Excess of column 1 over column 2
1924			
February 6	1,532	659	873
13	1,502	650	852
20	1,514	655	859
27	1,469	608	861
March 5	1,463	666	797
12	1,484	674	810
19	1,549	736	813
26	1,505	706	799
April 2	1,540	705	835
9	1,474	651	823
16	1,481	645	836
23	1,495	671	824
30	1,569	729	840
May 7	1,525	676	849
14	1,504	646	858
21	1,525	670	855
28	1,500	670	830
June 4	1,545	694	851
11	1,637	792	845
18	1,694	831	863
1925			
February 4	2,032	1,079	953
11	2,016	1,029	987
18	2,009	1,033	976
25	2,041	1,049	992
March 4	2,060	1,042	1,018
11	2,005	976	1,029
18	2,035	1,020	1,015
25	2,018	983	1,035
April 1	2,014	1,032	982
8	1,946	948	998
15	1,954	960	994
22	2,024	994	1,030
29	2,089	1,054	1,035
May 6	2,065	1,026	1,039
13	2,003	994	1,009
20	1,995	995	1,000
27	2,017	1,024	993
June 3	2,038	1,050	988
10	2,018	1,014	1,004
17	2,058	1,027	1,031

*These are not the same as the weekly reporting banks, but at the time the Board's weekly reports of brokers' loans were inaugurated in January 1926, the weekly figures exceeded the daily figures by a relatively small amount only.

DIVISION OF BANK OPERATIONS
MARCH 4, 1930

LOANS ON SECURITIES OF WEEKLY REPORTING MEMBER
BANKS IN NEW YORK CITY, FEB.-JUNE, 1926-1928
(In millions of dollars)

		Total	To brokers and dealers	To others
1926				
February	3	2,270	1,222	1,048
	10	2,233	1,199	1,034
	17	2,157	1,159	998
	24	2,142	1,149	993
March	3	2,114	1,125	989
	10	2,012	1,021	991
	17	2,067	1,033	1,034
	24	2,091	1,027	1,064
	31	2,151	1,048	1,103
April	7	2,106	958	1,148
	14	1,988	877	1,111
	21	1,981	886	1,095
	28	2,039	898	1,141
May	5	2,065	975	1,090
	12	1,999	888	1,111
	19	2,031	894	1,137
	26	2,039	893	1,146
June	9	2,144	960	1,184
	9	2,043	899	1,144
	16	2,059	926	1,133
1927				
February	2	2,113	885	1,228
	9	2,015	808	1,207
	16	2,026	815	1,211
	23	2,036	856	1,180
March	2	2,096	922	1,174
	9	2,061	870	1,191
	16	2,095	888	1,207
	23	2,087	881	1,206
	30	2,146	942	1,204
April	6	2,189	969	1,220
	13	2,114	899	1,215
	20	2,147	912	1,235
	27	2,176	936	1,240
May	4	2,244	979	1,265
	11	2,176	910	1,266
	18	2,203	924	1,279
	25	2,178	932	1,246
June	1	2,356	1,076	1,280
	8	2,274	1,035	1,239
	15	2,305	1,071	1,234
1928				
February	1	2,691	1,267	1,424
	8	2,537	1,171	1,366
	15	2,498	1,152	1,346
	22	2,428	1,094	1,334
	29	2,481	1,149	1,332
March	7	2,402	1,019	1,383
	14	2,475	1,090	1,385
	21	2,395	1,027	1,368
	28	2,524	1,121	1,403
April	4	2,733	1,265	1,468
	11	2,607	1,144	1,463
	18	2,643	1,164	1,479
	25	2,716	1,200	1,516
May	2	2,851	1,329	1,522
	9	2,782	1,252	1,530
	16	2,812	1,312	1,500
	23	2,726	1,247	1,479
	29	2,763	1,219	1,544
June	6	2,707	1,167	1,540
	13	2,638	1,079	1,559

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LOANS ON SECURITIES BY WEEKLY REPORTING MEMBER BANKS IN NEW YORK CITY,
FEBRUARY - JUNE, 1929-1930

Date	Total	To brokers and dealers	To others
1929			
Feb. 6	2,857	1,116	1,741
13	2,817	1,097	1,719
20	2,743	1,023	1,720
27	2,863	1,090	1,772
Mar. 6	2,859	1,117	1,742
13	2,749	1,004	1,745
20	2,833	1,091	1,742
27	2,852	1,071	1,782
Apr. 3	2,819	1,021	1,798
10	2,708	915	1,793
17	2,682	877	1,805
24	2,707	924	1,783
May 1	2,777	979	1,798
8	2,647	864	1,783
15	2,641	860	1,781
22	2,614	827	1,787
29	2,585	773	1,812
June 5	2,678	837	1,841
12	2,663	821	1,842
19	2,749	883	1,866
1930			
Feb. 5	2,921	928	1,993
12	2,912	924	1,987
19	2,913	962	1,951
26	2,890	953	1,937

Goldenweiser draft. Insertion of "First Quarter". Passed Nov 17.29 with two omissions on p. 3a.

SUBSTITUTE FOR PAGES 2 AND 3

to reduce their borrowings, and by the end of the year discounts were in the smallest amount for nearly two years; this low level of indebtedness of member banks was an important factor in the easier condition of the money market.

First quarter

The year 1929 opened with total reserve bank credit outstanding in larger volume than in any year since the post-war crisis. Security loans of member banks and brokers' loans had attained new peaks. Collateral indications derived principally from the intense activity of the securities markets and the unprecedented rise of security prices gave unmistakable evidence of an absorption of the country's credit in speculative security operations to an alarming extent. There was nothing in the position of commercial credit or of business to occasion concern. The dangerous element in the credit situation was the continued and rapid growth of the volume of speculative security credit.

The measures taken by the Federal reserve banks in the year 1928 to firm money conditions by sales of open market investments and by successive increases of discount rates from 3 1/2 per cent at the opening of the year to 5 per cent by mid-year had not proved adequate. The second half of the year 1928 witnessed an aggravation of the conditions that had called forth the firm money policy of the Federal reserve banks in the first half of the year.

The credit situation confronting the Federal reserve system at the opening of the year 1929, therefore, still stood in need of correction: The problem was to find suitable means by which the growing volume of security credit could be brought under orderly restraint without occasioning avoidable pressure on commercial credit and business. With the system's portfolio of Government securities depleted by the sales made in the first half of the year 1928, the main or exclusive reliance in a further firming of money conditions must have been a further marking up of Federal reserve discount rates, unless some other expedient could be brought to bear in the situation.

The Board was not disposed to regard favorably further increases of discount rates as the appropriate method of dealing with the situation thus presented to it, and particularly as the Federal reserve system was related to it. It set forth its views of how the Federal reserve banks should proceed in the circumstances in a letter to them under date of February 2, which was later supplemented by a statement further elaborating its position, issued to the public February 7 and reading as follows:

"The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal reserve system.

"During the last year or more, however, the functioning of the Federal reserve system has encountered interference by reason of the excessive amount of the country's credit absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

"Coming at a time when the country has lost some 500,million dollars of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1 1/2 per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

"The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal reserve system as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them; which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection, the Federal Reserve Board, under date of February 2nd, addressed a letter to the Federal reserve banks, which contains a fuller statement of its position:

'The firming tendencies of the money market which have been in evidence since the beginning of the year - contrary to the usual trend at this season - make it incumbent upon the Federal reserve banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

'The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

'The resources of the Federal reserve system are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

'The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank it not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

'The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country.'"

It is not for the Federal Reserve Board to estimate the general expediency or the larger public consequences of its intervention by "direct pressure" in the complex situation existing at the time the above statement was called forth. It may be remarked, however, that the course adopted by the Board resulted in a substantial conservation of the credit resources of the banking system of the country, and particularly of the Federal reserve banks, for essential needs which arose later in the year. It may be remarked further that this outstanding experience with the application of "direct pressure" demonstrated its practicability, effectiveness and reasonableness as a method of reserve banking control under conditions appropriate to its use. Its potentialities and its availability in dealing with certain types of credit disorder can no longer be doubted.

Although the Federal reserve system did not resort to advances in discount rates, it continued throughout the first quarter, in addition to pursuing the

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policy of direct pressure, to exert its influence towards firmer money conditions. The reserve banks' buying rates for bills were advanced in the early months of the year from 4 1/2 to 5 3/8 per cent on short maturities, a rate higher than the 5 per cent rate on discounts, with the consequence that funds arising from a considerable inflow of gold from abroad in the early months of the year were utilized for the liquidation of the system's acceptance holdings, rather than of discounts for member banks. After the first three weeks in January, at the end of the seasonal return flow of

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bd

Date March 18, 1930

To Mr. Hamlin

Subject: Copy of newspaper article

From Mr. James

P81

2—8495 G P O

Attached hereto is an article which was written by a Country banker - Mr. W. M. Deas, President of the First National Bank of Arcadia, La.

I am sending it to you because I think Mr. Deas has more effectually and correctly presented the present financial situation in the cotton growing States than anything I have seen up to now.

I believe that you will find it worth reading and that you will agree with me as to the soundness of Mr. Deas' logic.

Geo. R. James

VOLUME 201
PAGE 81

"DANGERS OF INFLATED CREDIT"

..oooooOoooooo..

An article published in "The Bienville Democrat",

Arcadia, La.

March 12, 1930.

by

W. M. DEAS

President of the First National Bank

of Arcadia, La.

DANGERS OF INFLATED CREDIT

I am going to write something that may not be pleasant for the vast majority of us to read but something that our reason and common sense convinces us is true; yet, even though we know it to be true, still we refuse to admit its truth because it suggests a course contrary to our own distorted ideas and our daily action and practice.

Let us face the facts: Notwithstanding the many glaring headlines in the daily papers proclaiming an unprecedented condition of prosperity, we - you and I - know that it does not exist with us nor with our neighbors, and conditions over the country lead us to believe it does not, in reality, exist anywhere in our Southern country.

A country is prosperous when its people are free of debt and are earning or producing an income sufficient to take care of their current expenses and laying aside a small savings for adverse conditions that will surely come some day. When we are not doing this we are not prosperous but, on the contrary, we are headed for the shoals and the breakers over which we will be dashed to financial destruction if we do not change our course before it is too late.

It does not take a prophet to tell what the end of a man will be if he sees him traveling unremittingly toward an impassable abyss or chasm for sooner or later his mangled body will be found upon the rocks at the bottom of the chasm over which he has deliberately walked. Yet he who predicts this end does it up on the assumption that the man continues his course. And, in the same manner, the truth of what I am going to say is contingent upon the apparent attitude of the people remaining as it is today . . . an attitude of total disregard for a sane and reasonable handling of credit - that element whose wise use makes a poor man rich and whose unwise use will pauperize not only a rich man but even a rich nation.

We seem to think that by inflating our daily expenses through an ever expansion of credit that finally our income will also expand and a balance will be maintained. Consequently, day after day, month after month, year after year we find ourselves allowing our daily, monthly and yearly expenses to go farther and farther ahead of our reasonable or even possible income. We seem to forget that a day of settlement will surely come and every debt will have to be either satisfied or repudiated.

For more than ten years we have lived in what you might call an age of inflation - everything carrying an extraordinary apparent value, soaring, sometimes to an impossible height from which, one by one, they finally fall carrying more or less of disaster with them. Still we do not take the cue, but believe that the things that we are backing must always go higher and higher and cannot possibly come down regardless of what the conditions may be over the world. Following this erroneous lead we proceed to elevate our plane of living to such a level that nothing but the very highest price for our commodity can ever repay our expanded debts. We reason ourselves into believing that we can buy at a high price every other commodity that the one we are attempting to raise and pay for it with our one lone unstable crop.

Time has proved that this is a dangerous course to pursue and we must change that course if we would prosper. We must curtail the buying of things that we can produce ourselves and accumulate a capital upon which we can operate. We cannot expect our banks to finance one hundred per cent of our business and allow us to run it. The risk is too great. This applies to every form of business from the day laborer to the greatest merchant or other operator.

The farmer can no longer expect to go to a bank or merchant and ask him to finance the running of the farm when that farmer hasn't one thing to base such a demand upon. He has no feed, he has to buy his stock to plow with, he hasn't even paid his last year's taxes, he owes an installment on his land financed through the Federal Land Bank, he owes the license on his car and he hasn't a single dollar to begin his farm operations on. Can that farmer expect to make money when he follows that course each year and can the bank expect to continue the practice of making such loans?

We must begin to raise everything at home that we can raise and quit sending every dollar we make off somewhere to buy the things that we could and should raise on our own farm; and year by year cut down our borrowing if we expect to ever become independent.

The same things apply to every other forms of business. The merchant or other operator should not ask a bank or some merchant to finance him 100 per cent, but should employ at least fifty per cent of his own money in the business and unless he does this and uses strict economy in his operations he cannot survive the cataclysm that follows an inflated credit. Credit is almost indispensable to the small man but must be used as something to help splice out our own capital and not to be the basis, the foundation and entire structure of the business that we are trying to operate. We must use and conserve credit just as we would economically use and conserve capital. There is a limit to which a successful man can use credit, and after that line has been passed, then credit becomes one of our most dangerous and menacing elements. Today finds us extravagantly extending our credit position until it has reached an extraordinarily dangerous tension. We buy everything that we can buy on installments until our installment payments sometime amount to practically as much as our income - yet we know we must live, but how?

The time has come when we must call a halt if we do not want to face financial disaster and ultimate ruin. We must stop in our mad race of spending money long enough to try to determine where the money is coming from to pay the debts that we are so extravagantly contracting on all sides. Let us sit down and take a pencil and try to balance our liabilities with our resources and see just where we stand. In the last ten years we find that practically sixty to seventy per cent of the homes both in town and on the farm have been mortgaged to help take up a part of the debts that we have made above our income and the only way that we can ever expect to pay these mortgages is by showing a net profit of production or income over expenditures. You can't pay a mortgage with the money that has been spent. We seem to think that we are paying a debt when we borrow the money from some one else and pay that debt off but we have only transferred it and possibly made it larger. We today are getting down to a pre-war position and we must adjust ourselves to it. It seems that unless at least a 20 per cent reduction is made in cotton acreage this year that we cannot expect a price much above ten cents a pound for our cotton. You know what that means, and unless the country raises its feed of some kind and raises the other things that can be raised, then how can we expect to go into another year depending upon borrowing the money to buy all these things with the outlook what it would be. A blind man can see that our present course of action and life will lead to financial bankruptcy. Then why follow it farther. When our past plan and style of business has forced us to mortgage everything we have to keep going then what does the future hold for us when we have nothing further to mortgage in order to take up our future losses. Our only chance is to eliminate those expenditures and the contracting of debts and use credit only as a last resort, always keeping our liabilities well within our income, remembering that we cannot continue to extend from year to year our obligations but eventually we must either pay them or lose that property that we have mortgaged to secure them. When this happens we are then forced to start over, defeated, disheartened, discouraged and broken.

There is no use of us longer trying to deceive ourselves by what we magnanimously call "Boosting" until we establish a condition and a position that will admit of boosting. Real boost - is the telling to the world the actual facts and figures that show forth the good things and the prosperous condition that exists in the country or the town or the city that is being proclaimed to the world.

The real thing for us to do is to bring about such a condition that will admit of advertising; in fact, one never has to tell a man when he is prospering - he knows it himself. He feels it, he radiates it, and everywhere he goes he shows it forth naturally.

You cannot make a man believe he is prospering if he has his home mortgaged to the limit. His automobile mortgaged for the payments due. His furniture in his house all mortgaged to secure its unpaid installments and when he knows that every month he must pay from his salary the interest on his mortgage, the installment on his car, the installment on his furniture, the installment on his radio, and on his frigidaire, besides his actual living expenses, his life insurance, etc. This kind of a man, and the world is full of them, is completely enmeshed in debt and his end is inevitable bankruptcy unless he calls a halt to further extending his credit position.

Let us get from under this terrific burden of debt by curtailing our expenditures and curbing our extravagant ideas and begin to establish ourselves in the world by building up a substantial saving along some line which can be done when cut our actual living expenses and extravagant desires to where we can show a reasonable portion of our income above our expenditures for, unless this is done, there is no other end for us to reach than financial dissolution and bankruptcy where in we will ruin ourselves and hurt those who have extended credit to us in good faith.

W. M. DEAS.

See copy

P85

Gov Young
Letter to Sec Mellon
Connection of
Bk. in. Int Settl copy

March 14, 1930

My dear Mr. Secretary:

In reply to your inquiry relative to the letter of Hon. Louis T. McFadden, Chairman of the Committee on Banking and Currency of the House of Representatives, dated March 10, 1930, enclosing copy of H. Res. 171, which was unanimously reported by the Banking and Currency Committee to the House of Representatives on March 7, 1930, I advise that there is very little information in the possession of the Board, but I am glad to furnish such as is available.

Mr. Owen D. Young is a Class C director of the Federal Reserve Bank of New York, appointed by the Federal Reserve Board and designated as Deputy Chairman by the Federal Reserve Board. Mr. Young was a member of the Dawes Commission in connection with reparation settlements. In 1929 he was again asked to participate in reparation settlements and did so, later being appointed the presiding officer. As such he participated in the formulation of the so-called Young Plan, which included the suggestion for the Bank for International Settlements. In some of this work he used the services of Dr. W. R. Burgess, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York.

The Federal Reserve Board has obtained copies of the Young Plan, the draft charter and statutes of the Bank for International Settlements, and the trust agreement of the creditor nations, and has made a study of these documents merely for its own information.

Upon the return of Mr. Young to this country, it was my privilege to sit in a conference where Mr. Young discussed, in a general way, the objects and purposes of the Bank for International Settlements. Since then the Bank for International Settlements has been organized, and two Americans, Mr. Jackson E. Reynolds of New York and Mr. Melvin A. Traylor of Chicago, participated in drafting the charter and statutes.

Mr. Reynolds and Mr. Traylor now have no official connection with the Federal Reserve System, except that Mr. Traylor is an alternate on the Federal Advisory Council from the Chicago district. Mr. Reynolds was a director of the Federal Reserve Bank of New York for a term of three years ending December 31, 1928.

Dr. Walter Lichtenstein accompanied Mr. Reynolds and Mr. Traylor to Europe. Previously to going, he was Secretary of the Federal Advisory

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Council but resigned shortly before leaving for Europe. Since his return to this country, he has been reappointed Secretary of the Federal Advisory Council.

In the charter of the Bank for International Settlements provision was made to make it possible for a bank forming a part of a system in any country which has been entrusted with the duty of regulating the volume of currency and credit in that country, which is situated and operating in the principal financial market of that country, to become a part of the management of the Bank for International Settlements. However, in view of the public statement of the Secretary of State, dated May 16, 1929, no Federal reserve bank, to our knowledge, has participated.

The Federal Reserve Board was informed by the Federal Reserve Bank of New York that it would be furnished with copies of any official communications received from the Bank for International Settlements, and under date of February 20, 1930, a cable was received by the Governor of the Federal Reserve Bank of New York from the Organization Committee of the Bank for International Settlements requesting a statement from him to the effect that he will either nominate two American directors or that he is unable or unwilling to do so, to which the Governor of the Federal Reserve Bank of New York replied by cable, that it would not be possible for him to nominate. A cable was then received inquiring if the Federal Reserve Bank of New York objects to the Organization Committee inviting Mr. Gates W. McGarrah and Mr. Leon Fraser to join the Board of the Bank for International Settlements. Mr. J. H. Case, Deputy Governor of the Federal Reserve Bank, replied that the Federal Reserve Bank of New York had no objections to offer to the election of Messrs. McGarrah and Fraser as the American directors of the Bank for International Settlements. All of this procedure was in accordance with Article 28 of the statutes of the Bank for International Settlements.

Mr. Gates W. McGarrah has been Class C director of the Federal Reserve Bank of New York for several years, appointed by the Federal Reserve Board, and designated as Chairman of the Board of Directors. Mr. McGarrah resigned on February 27, 1930, and has since accepted a directorship in the Bank for International Settlements.

I do not know of any other person associated with the Federal Reserve System who has had anything to do with the Bank for International Settlements, other than those specified above, nor do I know of any one associated with the System who contemplates association with the Bank for International Settlements.

As far as I know, there are no contracts or agreements involving the Federal Reserve System to participate in any manner whatsoever in the organization, establishment or operation of the Bank for International Settlements, either directly or indirectly through J. P. Morgan and Company. Furthermore, it is inconceivable to me that any Federal reserve bank would enter into any such contract or agreement without fully acquainting the Board with the facts. Paragraph (e) of Section 14 of the Federal Reserve Act would make it mandatory upon a Federal reserve bank to secure the consent of the Federal

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Reserve Board before any account could be opened with or for the Bank for International Settlements.

I have furnished you such information as I have in my possession, both as an individual and as an official of the Federal Reserve Board.

Yours respectfully,

R. A. Young,
Governor.

Honorable A. W. Mellon,
Secretary of the Treasury,
Washington, D. C.

Gov Growth Test. June 19.29 See Bk

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I have voted "No" on Dr. Miller's proposed amendment to the Annual Report for the following reasons:

ONE:- I question the accuracy of the following statements:

(A) (Page 1) "With the System's portfolio of Government securities depleted by the sales made in the first half of the year 1928, the main or exclusive reliance in a further firming of money conditions******"

I direct your attention to the holdings of Government securities by the System on January 2; $76,000,000 were held in the Open Market Investment Account; $47,000,000 under resale agreement, and $122,000,000 held by the banks outside of the Open Market Investment Committee, or a total of $244,000,000. At the time the Board's statement was issued these holdings had been reduced to $200,000,000, and by June to $145,000,000, the reduction in the System's Special Account amounting to $55,000,000.

(B) (Page 2) "The Board was not disposed to regard favorably further increases of discount rates as the appropriate method of dealing with the situation thus presented to it."

Rates on discounts to member banks were, to be sure, left unchanged, except in the four Western banks, where they were brought up to the 5 per cent level, but beginning with January buying rates on bills were increased at frequent intervals with the approval of the Board, with the consequence that the System's bill holdings declined from $484,000,000 to $113,000,000 in the first part of June, and to $69,000,000 in July. Liquidation of Governments and of bills resulted in a growth of discounts from $852,000,000 oh May 29, and there is no way of telling to what extent it was direct action, and to what extent growth in discounts that caused the interruption in the growth of speculative credit.

(C) (Page 3) "It may be remarked, however, that the course adopted by the Board resulted in a substantial conservation of the credit resources of the banking system of the country, and particularly of the Federal reserve banks, for essential needs which arose later in the year."

about June 15th Bd. [illegible] not were ready to [illegible] direct action. [illegible]

I direct your attention to the fact that between June and the date of the stock market crash there was an advance in speculative security credit as rapid as, if not more rapid, than in any similar period in the history of the System, with the exception of the week between October 23 and November 1, and it had all the earmarks of non-essential rather than essential credit.

TWO:- The amendment to the report carries the thought to the American public that direct action is a new discovery, and that it was not practiced previously to the Board's action in February. I know from my own experience in operating a reserve bank, and my observations of other reserve banks, that this is not correct. Direct action has always been practiced by the reserve banks and has been from time to time discussed by the Board, as, for instance, in its 1926 annual report.

I am convinced that by claiming credit for the success of its policy in the early part of the year and not mentioning the suspension of this policy in June, the Board lays itself open to the accusation of lack of candor. It also makes it hard to explain why, if it had an efficient means of controlling the growth of speculative credit, it failed to use this method later in the year, when all the indications pointed toward a more urgent need than ever for the exercise of restraint.

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And, finally, I believe that the Board, by stating that it has devised a means of controlling speculation without subjecting business to higher rates for money, establishes a precedent that will be the cause of serious embarrassment. Whenever in the future the system will find it necessary to raise discount rates, it will be accused of disregard of the interest of business, and demands will be made upon it to use methods of handling the situation without resorting to advances of discount rates. I feel the more strongly on this point, because I am certain that no method of restraint can be put into operation through rates, through sales in the open market, or through direct pressure without increasing the cost of credit to business, and that direct pressure affects interest rates more, rather than less, than do the other policies.

COPY

Sec Bk

Gov Talley - Case

B97

March 15, 1930.

Mr. J. H. Case, Chairman
Federal Reserve Bank of New York,
New York City.

Dear Mr. Case:

It was good of you to write me so freely on March 7, to cover so completely the general money market, business and credit situations and to express the tentative conclusions reached from an analysis based upon the recognition of the effect of all contributing factors.

There has been plenty of evidence to us that what appeared to be an upturn in January has not held. There has been an increasing pressure exerted by commodity surpluses and the over-abundance of goods generally in other lines. It has also been quite clear that there really has been no business demand for funds, although there was at the close of March 5 an upturn of 98 million dollars in the loans of reporting banks.

Your letter does not particularly emphasize the fact but I easily gather from it that your officers have been anxious to promptly follow the situation with lowered rediscount and bill rates. There does appear from what you say and in your expressed tentative conclusion an over-anxiety to make these new and lower rates effective through the purchase of an additional amount of governments. There seems to me to have been quite a sufficient rapid decline in discounts and therefore an additional amount of governments, I think, would accelerate that trend, although I would like to say that we have no concern here over the probability or actual phenomenon of the banks being entirely out of debt or in respect to how low, in the circumstances, total earning assets might go.

We have had in mind that it would probably be much better to purchase some sterling and franc exchange so as to nullify the possibility of gold imports either from England or the Continent, so that there would be no interference with any tendency toward an improved purchasing power and that the effect upon prices here might follow a natural course as the result of a gradual improvement in demand. Over-exertion toward open market purchases could have an inflationary effect on the commodity prices and goods that would tend to thwart the improvement in purchasing power abroad and this could result in a stimulation of stock market buying of the same character. The purchase of foreign bills and our release of exchange against such purchases from time to time would of course have the same effect, but you advise that Governor Harrison has informed you that it is impracticable to follow that course in view of the scarcity of the supply of bills that might be purchased.

I also observe that on yesterday quotations for bills in the London market were very low, some maturities offered at substantially below 3%. If this situation portends a further early reduction in foreign bank rates, the exchanges would naturally weaken further and we would then have again the question before us of foreign exchange purchases. On the other hand if the execution of this policy would not prevent gold imports, then we have nothing but a situation of competition between ourselves and the foreign situations in bringing about and reaching the greatest money ease. In that case the only thing that we could do would be to make substantial open market purchases in order to win in the competition.

With the whole world apparently sitting on the same side of the table financially as to easy money policies, it is extremely difficult for me to see how we are going to have any success in forcing gold away from us, and the only thing that can ensue is an inflation that would be mistaken for business recovery. With the tendency to bring out new security issues and the proceeds of these issues more or less idle during the process of being used, we are likely to create the same situation that began in the latter days of 1927 by reason of the concentrated proceeds of these issues being available for stock exchange money to be used in speculation. This, in my judgment, would follow, unless the rather large proportion of security proceeds are to be used for export capital.

This brings us to the question of the Reparations bonds and their sale would of course absorb that part of the available funds, but it ought not to be overlooked that these bonds themselves represent inflation in themselves because they merely represent the hiatus between the destruction of capital during the war and the time when that capital can be re-saved.

Frankly, we were very much disappointed over your reduction in rate to 3½% last Thursday. We feel a little bit better about it today, because the stock market has regarded the action as an unfavorable symptom and seems to recognize it as a panacea for business depression. The increase in brokers' loans of approximately a quarter of a billion dollars in the last two weeks indicates some public distribution following an accumulation by the wise ones - "the strong hands" - during the period of extreme stock market depression, and I think that this is very, very, bad, as in my own opinion there is no justification for the present general level of stock prices. I just want everybody to remember that one can now borrow money at 3 to 3½% and buy and carry stocks which <u>apparently</u> return yields of from 5 to 8%. The public becomes extremely impatient in regard to low yields and we have only the one compensating factor that there are many first lien securities that can yet be attractively bought. The dear public, however, instead of having bought this class of securities to any extent during the last two years of low prices for them, is going to do exactly like it always does and buy them on rising markets and diminishing yields. The security issues that are being brought out now I notice are largely debentures and therefore not much different from the orgy of stock issues in the latter part of 1928 and throughout the year 1929. In other words, aren't we becoming over-capitalized? And yet I understand that the issue houses must live or liquidate.

Everyone seems to want to keep business jazzed up all the time and have it run along at boom figures. It seems to me that the sounder course to pursue, after having done this for some time, is to catch up and let the public pay some of its debts or at least acquire larger equities in its automobiles, radios and real estate, though in following such a course there would be a lot of heartbreaks because in order for all of them to settle up we would have to go on playing the oboe and similar instruments and go on with the marathon dance so that everyone could get their fill of enjoyment.

It seems to me that a good deal has already been done in respect to which the Open Market Committee would expect to deliberate at the meeting which has now been definitely called for March 24. With the call rates and investment yield rates rapidly approaching a point well below the savings and time deposit rates over the country, we are going to see and it is already apparent to me, an increase in so-called time deposits and a renewal of the battle on the part of the member banks to reduce their reserve requirements in consequence.

Summing up, therefore, aren't we just starting to wind up the clock again after the mainspring has slipped the ratchet and won't we just keep on doing that until about the latter part of August when we will hear New York advocating that we ought to begin selling some securities and tightening up, just at the time that we would naturally expect a normal revival in business activity and confronted with the problem of absorbing new commodity production, provided, of course, that some inroads have in the meantime been made on existing surpluses.

It is apparent from the published statements that the New York bank has already purchased additional government securities to the extent of approximately $25,000,000. I want to reiterate my position that the failure of several Federal reserve banks to participate in open market purchases is not an expression of effective opposition to policy. It is difficult for me to understand why the Governors of some of the Federal reserve banks will vote in the affirmative for the open market policy and then will refuse to participate in the purchases, notwithstanding their reserve and collateral positions admit of their doing so. The open market purchases have the same effect upon the System and the country whether made by one bank or participated in by a group. The proceeds of open market purchases work their way into every district in the course of time, regardless of whether the Federal reserve bank of that district participates in the purchases or not.

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Since we have been participating and taking our pro rata part of the allotments that would have gone to non-participating banks and this course has raised our participation from its normal amount of 3.3% to 7 and 8% at times, and in consequence of our dragging along with the lowest reserve percentage in the System, we have concluded that in the future, dependent upon our reserve and collateral position, we will accept our participation only to our normal proportion.

I do not seem to have been able to make any impression of my position that all Federal reserve banks should support through active participation whatever open market policy is adopted even though voting in the negative. Therefore, we propose to take our participation dependent upon our reserve and collateral position, up to our normal amount and if our statements in this regard are not effective, in so far as we are concerned we will let the effect of non-participation on the part of some bank show for itself. Since at the present time (when we take back the five million dollars we sold under repurchase agreement, which we expect to do shortly), our participation in open market purchases is 5.63%, we do not expect to take any more participation above our normal amount, we desire to withhold any participation in present purchases, thinking that at the meeting on March 24, there may be a reapportionment of the securities now in the account.

We also think that it would be better for the participation to be prorated on the basis of reserve percentages instead of on the need for earning assets. We do not believe that System policy should either lean to or from an amount of earning assets. Where the participation is pro-rated on the basis of reserve percentages, it would naturally follow that the bank which had a greater proportion of earning assets at the time would receive a correspondingly smaller participation and vice versa.

Since you have been in touch with the Federal Reserve Board in reference to the points covered in yourletter and inasmuch as the Open Market Conference has been called by the Board, I am taking the liberty of sending a copy of this letter to the Board.

I read the copy of Mr. McGarrah's letter of February 21, which you sent me. The only comment that I can make is that it is in vivid contrast to the one that we wrote the Board on the same subject.

In closing, let me offer my congratulations to you upon your appointment to the chairmanship of the New York bank. We hope that the assumption of your new duties is not going to lessen our direct contact with you and we don't believe it will because you will carry to the new position the influences of your long experience and high ability as an operating officer in the System.

Looking forward to seeing you in Washington or later in New York, should Governor Harrison return in time to attend the meeting, I am

Yours very truly,

G O V E R N O R.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date March 22, 1930

To Mr. Hamlin

From Mr. Goldenweiser EAG

Subject: Decentralization of credit under the Federal reserve system

2-8495

see B11

B105

Referring to your recent inquiry, the matter of concentration of credit is influenced by so many factors, that it is impossible to isolate and measure the influence of the establishment of the Federal reserve system. On the one hand, the organization of regional reserve banks and the pooling of regional resources has freed local banks from the necessity of applying to New York for credit whenever they were in difficulties. This has had the effect of decreasing the dependence of banks in the interior on New York. It has also made credit much more fluid throughout the country and has permitted its flow from section to section in accordance with local needs. As New York is the central money market of the country, this flow has naturally been through New York, and, therefore, has probably increased the importance of New York as a central money market and particularly has increased the volume of dealings which pass through New York. There have been many other factors which have tended to increase the importance of the New York money market since the Federal reserve system was established, such as the change of this country from a debtor to a creditor nation, and its rise to a dominant position in the international money markets, for international transactions flow through the New York market. The long period of easy money since 1922, with its encouragement to financing through the issue of securities instead of loans from local banks, has also contributed to the growth of the New York market, since security transactions must be conducted through centralized exchanges.

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As you can see, the forces are so conflicting and so varied that it is absolutely impossible to assign the degree to which the Federal reserve system has been a factor in the situation in either direction.

See B11

Governors Conf.
Introductory to Gov's draft P124

The Committee appointed at the meeting of the Federal Reserve Board with the representatives of the twelve Federal reserve banks yesterday, met at the Carlton Hotel last evening and adopted the attached revised draft of a proposed open market procedure.

It was also voted to be the sense of the representatives of the Federal reserve banks present at the meeting that the representative of the Federal Reserve Bank of New York be elected Chairman of the Conference for one year; that the Executive Committee provided for in the proposed procedure should consist of the Chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia and Chicago for one year; also, that the Conference adopt the principle of reasonable rotation in the membership of the Executive Committee after the first year.

Gov Young to Boards   [illegible]

To all Members of the Board,   March 25, 1930.

From Governor Young.

The Committee that was suggested yesterday afternoon to draft an open market procedure for the System met last evening at the Carlton Hotel and after much discussion and many compromises, the attached draft was finally approved unanimously by the committee. I believe that it meets many of the criticisms that were made by the various boards of directors, but not all. Nevertheless, I do believe that after the directors of the various reserve banks learn that their representatives have agreed to it unanimously that they will no doubt adopt it.

The eighth section was included on my suggestion for certain specific reasons, which are as follows:

(1) No Board of Directors would care to treat its responsibilities and duties under the law in such a light manner as to assign those duties and responsibilities under all occasions and conditions, and I believe it advisable under the arrangement to specifically mention the rights that they have under the law.

(2) From a practical standpoint, however, I do not believe that any Federal reserve bank would withdraw from representation in the Open Market Policy Conference except with great reluctance, even though their Board of Directors may frequently dissent from the policy.

(3) If one or several of the smaller banks should elect to withdraw, I still believe that the Committee would be in a position to function. If, however, one or several of the larger Federal reserve banks should elect to withdraw, the probabilities are that the committee plan would have to be abandoned, and open market operations would have to be handled by regulation. Regardless of what has happened in the past, however, I believe this to be a very remote possibility.

I realize that this procedure will not meet the approval of my colleagues in every detail, but I do believe that if this is approached in the same attitude of mind that the various committee members approached it last evening in conference, any objections will be trivial.

C 130

Draft submitted by Governor Mar. 25 '30 See R

(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, voluntary in character (Mr. Russell) to be known as the Open Market Policy Conference, to be set up in its place. 131

(2) The Open Market Policy Conference to consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

(3) The Conference to meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board. 131

(4) The function of the Open Market Policy Conference to be to consider, develop and recommend policies and plans with regard to open market operations.

(5) The time, character and volume of purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, to be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales if recommended; any Federal reserve bank dissenting from the proposed policy to be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

(7) ~~A~~ an Executive Committee of five to be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

(8) Each Federal reserve bank to have the right, at its option, to retire as a member of the Open Market Policy Conference; no member of the Conference to be considered as waiving any of its rights under the Federal Reserve Act with

(changed slightly by Benson)

to with respect to the purchase and sale of securities, but each member of the Conference will respect its Conference obligations.

P131

Ice Ru

(Draft of proposed op[en] market procedure as revised at [th]e meeting of the Federal Reserve Board, with the representatives of the Federal reserve banks on March 25, 1930.)

adopted by Board Mar 26, 30

(1) The Open Market Investment Committee, as at present constituted, is hereby discontinued and a new committee, voluntary in character, to be known as the Open Market Policy Conference, is set up in its place.

(2) The Open Market Policy Conference shall consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

(3) The Conference shall meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board.

(4) The function of the Open Market Policy Conference shall be to consider, develop and recommend policies and plans with regard to open market operations.

(5) The time, character and volume of purchases and sales shall be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, shall be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales recommended; any Federal reserve bank dissenting from the proposed policy shall be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

(7) An Executive Committee of five shall be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

(8) Each Federal Reserve Bank participating in the Open Market Policy Conference shall be considered as waiving none of its rights under the Federal Reserve Act; each Federal Reserve Bank shall have the right at its option to retire as a member of the Open Market Policy Conference, but each bank while a member of the Conference shall respect its Conference obligations.

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mail
Decentralization

Mr. Pole

Mr. Smead

Banking resources in New York and other cities, 1914-1929

In order to measure the relative increase in banking resources between 1914 and 1929 in each of the twelve Federal reserve bank cities and in four other selected cities, also in the United States as a whole as well as in the United States exclusive of New York City, the following table has been prepared comparing total loans and investments of all banks in each of such cities in the two years. The results, while believed to be substantially correct, cannot be said to be exact, for official figures for State banks are often not available separately for individual cities (only State totals often being published). The figures given were taken from the Rand-McNally bankers directories for July 1914 and July 1929, except in the case of New York City. For that city official figures as published by the Comptroller of the Currency and by the State banking department were used, due to the fact that it was not practicable to eliminate from the bankers directory figures the assets of the foreign branches of New York City banks:

City	Total loans and investments (a)		Per cent increase July 1914 to July 1929
	July 1914	July 1929	
UNITED STATES*	$20,876,000,000	$58,533,000,000	180
UNITED STATES, excluding New York City	16,898,000,000	45,928,000,000	172
New York	3,978,000,000	12,605,000,000	217
Chicago	873,000,000	2,708,000,000	210
Boston	744,000,000	1,850,000,000	149
Philadelphia	775,000,000	2,030,000,000	162
Cleveland	297,000,000	966,000,000	225
Richmond	59,000,000	135,000,000	129
Atlanta	41,000,000	137,000,000	234
St. Louis	301,000,000	594,000,000	97
Minneapolis	109,000,000	310,000,000	184
Kansas City	106,000,000	242,000,000	128
Dallas	30,000,000	161,000,000	437
San Francisco	394,000,000	1,895,000,000	**
Baltimore	242,000,000	591,000,000	144
Pittsburgh	489,000,000	1,083,000,000	121
Detroit	178,000,000	1,008,000,000	466
New Orleans	85,000,000	242,000,000	185

**Available figures for 1914 and 1929 are not comparable, due to the fact that the published figures for the city include a large number of out-of-town branches.

*From Annual reports of the Comptroller of the Currency, exclusive of Alaska and insular possessions.

(a) Exclusive of joint stock land banks, Fed. Intermediate Credit banks and Morris Plan banks; figures for New York City also exclude private banks.

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