The Papers of Charles Hamlin (mss24661)

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FRBoard Members

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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

MPC

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 209 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 209

Page 1 - Excerpt from letter to Board from Mr. McGarrah, answering Board's letter of February 2, re member bank borrowings.
Pages 4, 5, 6, 7 & 8 - Memo re relation of rates among the various F.R. Banks. (Notes on action at Board meetings.)
Page 10 - Security Loans of Reporting Member Banks - June 1929. (Typed table)
Page 11 - Data re reduction of rates - notes of Mr. Hamlin.
Pages 12 & 13 - Memo to Mr. Hamlin from Mr. Smead re increase in brokers' loans for account of "others" between February and June 1929.
Page 17 - Memo to Mr. Hamlin from Mr. Smead re brokers' loans, call loan renewal rates, etc.
Page 20 - Memo to Mr. Hamlin from Mr. Smead re brokers' loans, call loan renewal rates, etc.
Page 22 - Changes in Loan Account of All Weekly Reporting Member Banks During Selected Periods.
Page 23 - Changes in Loan Account of Weekly Reporting Member Banks in New York City.
Page 24 - Memo to Mr. Hamlin from Mr. Smead re continuous borrowings February - June 1929, etc.
Page 25 - Rediscount Rate Controversy between Board and F.R.Bk of N.Y.
Pages 26 & 27 - Memo to Mr. Hamlin from Mr. Smead re "Europe Expects Flow of Funds from U.S. Soon".
Page 28 - Memo to Mr. Hamlin from Mr. Van Fossen re monthly averages of interest rates in New York City, etc.
Page 29 - Memo to Mr. Hamlin from Mr. Goldenweiser re acceptance purchases in 1928.
Page 30 - Memo to Mr. Hamlin from Mr. Goldenweiser re figures for member banks for July and November 1928.
Page 31 - Memo to Mr. Hamlin from Mr. Smead re Charts on Federal Reserve Credit and Security Loans.
Page 32 - Memo to Mr. Hamlin from Mr. Goldenweiser re Recent Economic Changes.
Page 35 - Earnings & Expenses of F.R. Banks.

McGarrah to the Board February 21,1929, answering Board's letter of February 2:

States that the officers report specially in cases where it becomes apparent that a member bank is borrowing too much or for a too protracted period in relation to other comparable banks, or where the bank is resorting to a continued use of our facilities because of a deliberate investment or loan policy on the part of the bank which itself results in a call upon us for what might really be considered capital funds. In such cases, especially where it seems the purpose of the borrowing is merely to make a profit between our rate and the yield to the borrowing bank, whether the investments be in Government bonds, corporation bonds, real estate mortgages, brokers loans, or any other form of investment or loan, - it is understood the officers will take the matter up with the bank and bring about a correction of its position, leaving to the management of the bank itself the determination of the particular means by which it will adjust its account with us.

195 - 67.

B1

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PAGE 1

Ser Bu

RELATION OF RATES

Warburg favored 6% for commercial paper, with 6½% for member bank collateral notes.

May 16, 1929. 16 - 57 (228).

Wetmore wanted 6% to restore the old relation of rates.

C.S.H. said 5½% would do this; that a 6% rate would be followed by an increase in open market commercial paper rates and customers' rates, and cause a new disproportionate relation of rates which would require correction, and that this would go on ad infinitum.

May 21,1929. 16 - 68, 69 (228).

Wetmore said Federal reserve rates should be as high as or higher than open market commercial paper or customers rates.

May 21,1929. 16 - 69 (228).

C.S.H. replied that Federal reserve rates, with a very few short exceptions, had always been lower than open market commercial rates or customers' rates, and could not be kept at a parity, much less higher.

May 21,1929. 16 - 68, 69 (228).

Governor Harrison and Mr. McGarrah came before the Board. They now say the trouble is with the relation of rates (dropping all talk as to the necessity for "correcting the situation" - that is, breaking the stock market.) They said they wanted 6% to correct the relation of rates.

C.S.H. asked if 5½% would not restore the old spread of ½ of 1%. They both said No, that whatever the relation may have been in the past (½% spread) they now favored a Federal reserve rate equal to or higher than open market paper rates and customers' rates.

C.S.H. asked if the latter rates would not at once be increased, making a new spread of about ½%.

They said the increase would be only slight, and perhaps not at all.

May 22, 1929. 16 - 74, 75. (228).

BX

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PAGE 4

C.S.H. said that if New York had asked for $5\frac{1}{2}\%$ instead of 6%, it would have appealed to him more strongly, as it would have reduced the spread to the old spread of $\frac{1}{2}$ of 1%.

C.S.H. said that Governor Harrison and Mr. McGarrah did not really want to restore the old spread, but to create a new one, with the Federal reserve rate higher, or at least as high, as the commercial paper and customers' rates; that such a relation could not be maintained; that under a $5\frac{1}{2}\%$ rate the banks need not increase market rates, but that following a 6% rate these latter rates would be increased and again become out of line even in accordance with their theory, necessitating further increase of Federal reserve rates.

May 23, 1929. 16 - 78 (229).

In Mr. Burgess' book on Governor Strong, page 246, there will be found an interesting statement by Governor Strong showing why Federal reserve rates were above commercial paper rates. He points out that commercial paper rates should be compared only with overdrafts of the British banks, and that these overdrafts are always higher than the Bank of England official acceptance rate. He casts out an intimation that perhaps some time in the far future our Federal reserve commercial paper rate will be likened to a Lombard loan, but he points out squarely that that is not the case today, and that the Federal reserve rates will always be above commercial paper rates.

Mr. Burgess in his book entitled "The Reserve Banks and the Money Market" on page 188 also shows why Federal reserve rates are higher than commercial paper rates; that the term discount rate as used in the English market is entirely different from the term as used in our markets. He points out that commercial paper rediscounted with the Federal reserve banks have a bank endorsement which entitles it to a lower Federal reserve rate than the bank charges its customer; that if the Federal reserve rate was, for example, 4%, it would be a proper rate as compared with a 5% rate charged by a bank to its customer.

Governor Strong also pointed this out to the Board on February 20, 1923.

/ 7 - 47 (98).

Governor Harrison admitted that an increase in the Federal reserve rate would generally be followed by an increase in customers' rates, but that the usury laws of the state of New York would prevent the customers' rate exceeding 6% in any event.

February 15, 1929. 15 - 150 (30).

Later Governor Harrison said that a 6% rate would not appreciably increase customers' rates in the New York district, but Governor Young replied that it would certainly increase them in other parts of the country.

August 2, 1929. 16 - 146 (42).

Mr. Potter of New York stated squarely that an increase in the Federal reserve rate would result in increased customers' rates, but probably not by the full amount of increase. He also stated that the usury laws of New York are easily evaded by requiring compensatory balances.

April 19, 1929. 16 - 28 (41).

Mr. Wetmore claimed that Federal reserve rates should be higher than customers' rates, and Mr. Warburg apparently agreed with him.

May 17, 1929.16 - 69 (41).

C.S.H. pointed out that New York had dropped its other arguments and now sought to increase simply on the ground of restoring the proper relation of rates making Federal reserve rates higher than customers' rates.

May 23, 1929. 16 - 78 (42).

The United States Chamber of Commerce Committee criticized the claim of Mr. Anderson and Mr. Hepburn that the Federal reserve rate should be higher than market rates, defining market rates as line of credit loans where the customer has access to different cities.

Page 58 Committee Report.

B4

N Y continued

Important dates etc

acceptance rates

N Y increase without first getting approval of Board

Jan 3, 29

15-121 (112)

Warburg admits increase necessary at one time to shut off flood of bills.

Jan 5, 29

15-124, 125 (42)

N Y directors said increase nec. to prevent flood of bills the proceeds of which would feed the stock market.

Jan 3, 29

15-122 (112)

N Y tells Board further increase nec. will make acc. rate as high as discount rate in many instances

Jan 19, 29

15-129 (4)

Warburg criticises, higher than discount rates.

Mar 8, 29

15-189 (4)

Gov Young wants [illegible] that [illegible] are lower than discount rates

P7

accep. rates (contd) (2

Market will blow through the hole.

Mar 22.29
15-200 (4)

Warburg admits mistake in, rec. at one time to prevent blood etc

May 16.29
16-57 (65)

Bullock says direct action calls for same increase in acceptances as in discounts and does not favor a lower acceptance rate.

Aug 10.29
16-119 (50)

Conference of N Y banks.

Mitchell urges Gov H. to call, on collateral to protect short loans to customers.

Feb 6.29
15-158.159 (115)

Potter, of Fed. adv. council came in, and complains that his bank, altho not a frequent borrower, has not been asked to enter.

Feb 14.29
15-171.172 (50)

Conference with N Y directors Board, thus Gov H. asks, but Gov H says yes but discount rates must first be advanced.

Mar 21.29
15-196 to 198 (56)

Direct pressure -

Gov H says has exercised, in Guar. Trust Co. and Nat. City Bank

Feb 5. 29

15-149. 150 (114)

Gov H says direct pressure when the banks as to street. loans to customers, as advocated by Board, would amount to a Rationing of credit.

Feb 5. 29

15-153 (114)

Gov Harrison limits direct pressure to banks which are borrowing more than banks of their class.

Feb 5. 29

15-154 (114)

Quote Reynolds - direct restraint of street. customer loans.

Mar 23. 29

16-1 (232)

Result of direct pressure.

Jan. to April. 1929

Int. bills & secur - 300 million more than average liquidation over same period, 1922-1927

Apr 19. 29

16-26. 27 (50)

Direct action

Gov H & McDougal oppose, as to customers speculative loans.

May 22. 29
16-76 (53)

Whether large banks should be refused rediscounts when borrowing to sustain speculative loans

June 5, 29
16-101.102 (155)

Gov Harrison qualifies suggestion by limiting refusal only to banks borrowing more than banks of its class.

June 5. 29
16-101.102 (155)

Board - NY
willing to suspend direct pressure.

June 12. 29

Discount rate

16-108.109 (54)

Gov Young reminds N Y that on May 21. 28 it told Bd - in reference to general letter, that it was inadvisable to put rates up for change

Feb 14. 29
15-167 to 170 (50)

Disc. rates.

can not control speculation.
Warns reduction to 4 1/2% in state of specul. actually

Alexander
Sept 28. 28
15 - 33 to 36. (41)

Prof Hawtrey letter says speculation can't be controlled by incr. in discount rates. Would injure business.

Jan 22, 29
15 - 131 (143)

Gov H says if 6% does not "correct the situation" we must have higher rates.

Feb 5, 29
15 - 149 to 151 (45)

Gov Young reminds N Y bank it has not answered Bds general letter asking FRbanks to give reasons for changes in.

Feb 14. 29
15 - 167 to 170 (50)

Gov Young says demand of N Y for immediate decision, is ridiculous. Mar 6 29
15 - 183 (54)

(6

Disc. rates

Geo H says increase justified bec. of danger of a run away stock market.

Mar 3. 29

15-185 (117)

Geo McDougal admits that a long continuance of a 6% or higher rate wld seriously affect business

Mar 27. 29

16-3.4. (57)

Telegram of Harry Wheeler protesting vs increase in discount rate

Apr 3. 29

16-15 (57)

Potter admits that usury laws are evaded by device of requiring a fixed minimum balance.

Geo H had claimed usury laws would protect customers vs a higher rate than 6% whatever the FR rate might be

Apr 19. 29

16-26 to 29 (61)

Governors conference favored 6% at NY and not less than 5% elsewhere

Apr 4. 29

16-15 (58)

Disc. rates

Hamlin says if 6% won't "correct situation" he would favor 7, 8, or higher.

Apr 24. 29
16-37 (62)

Six %, won't control speculation - speculators would give sigh of relief.

Sec. Mellon
Apr 25. 29
16-37. 38 (62)

even a 9% rate won't stop speculation. stock market beyond control by discount rates.

suggests increase, however, to restore proper relation of rates.

See Mellon
16-55 (64)

arguments of NY are arguments for lower, rather than higher.

CSH
May 16. 29
16-56 (51)

5 1/2 % would restore customary relation of rates

CSH
May 16. 29
16-55. 56 (64)

(8

Disc. rates

NY argument on lower rates in 1927 same as for higher rates now.

Clev.

Apr 18.29

16-22.23 (59.60)

May 16.29

16-56 (64)

Increase will cause increase in customers rates but not by same amount.

Potter

Apr 19.29

16-26 to 29 (61)

Wetmore says M rates should be as high as or higher than market (customers) rates.

May 20.29

16-64 (67)

Fed adv council favors 6% to restore relation of rates.

May 20.29

16-69 (67)

M banks Cleveland

Resolution favoring 6%.

May 17.29

16-64 (66)

Gov H. says if 6% does not correct situation would favor higher rate.

May 22.29

16-74.75 (68)

disc. rates

security loans to customers should be controlled only by discount rates.

Gov H & McGarrah
May 22. 29
16-76 (68)

McGarrah admits favoring an alternative rate increase policy until recently.

Now thinks 6% will be sufficient.
May 22. 29
16-74.75 (68)

Gov H and McGarrah now claim reason for increase is to restore relation of rates.

Now claim that FR rates should be as high or higher than market rates.
May 22. 29
16-74.75. (68)

Miller ready to consider as a compromise, 6% but with lower accept. rates. May 23. 29
16-78 (69)

CSH says all agree ~~that~~ 100 million more credit is now needed.
CSH will consider compromise
June 1. 29
16-94.95 (73)

Disc. rates

Mitchell's suggestion -

1. Disc rate to remain at 5%
2. More liberal disc. policy
3. Ease by buying bills + Govts
4. If speculation continues increase disc. rates

June 3, 29
16-100 (74)

Governors conference

Favored easing market by bill purchases.

Favors 6% rate at N.Y. - other FR banks to retain 5% rate.

Aug 7, 29
16-152-153 (81)

Board adopts Governors recommendn

Aug 8, 29

See discounts 16-155-156 (81)

Discounts.

FR bank no right to refuse, of eligible paper offered to replenish reserves.

Gov H.

Feb 6, 29
15-158 (115)

Gov H admits amount of, and per. % age no call on higher discount rates - Mar 22, 29
15-199 (118)

(11

Discounts

Effect of direct pressure

NY — Mar 22, 29

Brokers loans + 135

Discounts — 70

Res %. from 76 to 83%

15-199 (118)

FR Board warning

FR Bank NY interprets Board warning

as a ruling of law that discounts

to replenish reserves against deposits

arising from specul. customer loans

are illegal.

June 1, 29

16-93 (72)

Rationing.

Gov H. says rationing of customers

specul. loans would be, — which

he strongly opposes.

Mar 22, 29

15-200 (118)

Relation of rates

see Discount rates

Security loans

customer with proper balance,

offering good collateral entitled

to borrow all he wants at prevailing

disc. rate.

Mitch

May 21, 29

16-170 (97)

V2

Money laws

see Disc. rates

Young, Ew.

Mem. sent to NY giving Board's reasons for declining to authorize increase in disc. rates.

Feb 28. 29

15-181 (116)

CM

Mitchell

Sec Bu

Int. Tuesday PM. Mar. 26 ~~Quote~~ already filed in Sec Bu

" Wed. Mar ~~28~~ 27

Ready to loan 5 million at 16% and
a like amount for each gain of 1%
up to 20%

He also made it clear that his action
was based not so much on concern
over the movement of the rates,
but to end the idea that money
could not be had, no matter what
was offered for it.

From the time the offer was made
call money rates did not go
above the min. rate, but it
did go down, closing at 8%

N Y Times Sat. Mar 30
190-1

For exact interview,
see 189-142
190-6,14

Sept 20
No need to worry abt broken loans
or credit conditions

Sept 23.29. 196-26

Oct 29 Int. on Ar. fm Europe

conditions sound
Many issues below real value
Broker loans due rate

Oct 22, 29 196-146,151

Public is subbing for broken
loans

Oct 22.29 196-146

SECURITY LOANS OF REPORTING MEMBER BANKS, CALL LOAN RENEWAL RATES, ETC., FEBRUARY - JUNE 1929

Date 1929	Brokers loans by reporting member banks in New York City			Loans on securities of all weekly reporting member banks				Weekly average call loan renewal rate* (Per cent)	Standard statistics index of common stock market prices	Number of shares of stock sold on New York Stock Exchange during the week*
					To brokers and dealers					
	Total	Own account and out-of-town banks	For others	Total	In New York City	Outside N.Y.City	To others			
			(Millions of dollars)							
Feb. 6	5,669	3,048	2,621	7,558	1,771	816	4,971	6.60	202.4	22,565,000
13	5,568	2,957	2,612	7,515	1,705	828	4,982	7.13	198.1	18,538,000
20	5,477	2,809	2,668	7,444	1,574	837	5,033	7.00	195.3	12,983,000
27	5,507	2,783	2,724	7,573	1,589	862	5,122	7.70	203.2	25,074,000
Mar. 6	5,647	2,824	2,823	7,573	1,582	870	5,120	8.80	197.9	23,001,000
13	5,627	2,766	2,862	7,511	1,492	888	5,131	7.40	200.4	23,247,000
20	5,793	2,859	2,934	7,642	1,594	902	5,146	8.40	206.6	26,096,000
27	5,649	2,751	2,898	7,592	1,525	865	5,202	12.75	199.2	24,822,000
Apr. 3	5,562	2,673	2,889	7,516	1,428	859	5,229	10.00	197.4	19,994,000
10	5,427	2,545	2,882	7,380	1,315	836	5,228	8.00	196.8	17,502,000
17	5,425	2,539	2,886	7,353	1,291	831	5,231	7.90	201.1	16,658,000
24	5,492	2,576	2,916	7,319	1,349	828	5,143	8.00	204.5	20,860,000
May 1	5,532	2,656	2,876	7,371	1,384	815	5,171	11.40	206.4	22,976,000
8	5,551	2,598	2,953	7,241	1,280	810	5,151	12.40	207.9	20,330,000
15	5,565	2,585	2,979	7,221	1,285	796	5,140	9.20	205.2	19,639,000
22	5,520	2,478	3,042	7,144	1,179	798	5,167	6.60	196.6	21,362,000
29	5,288	2,313	2,975	7,112	1,072	808	5,231	6.00	195.5	16,098,000
June 5	5,284	2,350	2,934	7,197	1,122	808	5,267	6.80	203.2	16,984,000
12	5,284	2,373	2,911	7,209	1,135	796	5,278	7.60	202.1	14,136,000
19	5,420	2,475	2,945	7,382	1,260	811	5,311	7.00	209.0	17,045,000
26	5,542	2,574	2,969	7,539	1,389	808	5,343	9.40	214.9	19,848,000
Change between Feb. 6 and June 12:	-385	-675	+290	-349	-636	-20	+307	+1.00	-.3	

*Week ending Saturday.

DIVISION OF BANK OPERATIONS
MAY 20, 1930

P 10

Sa Bk

Reduction to 3 1/2%

1927

July 29. Kan C
Aug 4 St L
5. Boston. N.Y *
12 Dallas
13 Atlanta
16 Richmond

Sept.
7. Chicago
8 Phila
10 San F
13 Minn.

Increase to 4%

1928.

Jan 25. Chic
27 Rich
Feb 3 N.Y *
4 S.F
7 Minn
8. Boston, Dallas
10. Kan C.
11 Atlanta
16 Phila
21 St Louis

Mar 1. Cleve.

Increase to 4 1/2%

Apr. 20. Bost and Chicago.
23 St L
24 Rich.
25 Minn.

May 7, Dallas
17 Phila
18 N.York. *
25, Cleveland
26. Atlanta

June 2. S.F
7 Kan C

1927
N.Y. Aug 5. 3 1/2

1928
Feb 3 4%
Seven Months.
May 18 4 1/2
July 13. 5%

Should have raised to 6% in March 1928

Apr 20.
Sharpe 179-77
Apr 21
NY Ven 179-80

Fed adv C
Sept 28. 28
183-85

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C 11

Increase to 5%

1928.

July 11. Chic.
13 N. York. *
Richmond
14. Atlanta
19. Boston
St L.
20. Phila
Aug. 1. Cleveland

1929 Mar 2 Dallas
May 6 Kan C
14 Minn
20 S.F.

Increase to 6%

Aug 9. N. York

Reduction to 4 1/2%

Nov 15. N.Y.
21. Bost.
23. Chicago
Dec 6. S.F.
10 Atlanta
20 Dallas

N Y reduced to 3 1/2 %. Aug 5. 27

N Y increased to 4 %. Feb 3. 28
" " 4 1/2 May 18 ~~3~~ 28
Jan – June " 5 % July 13. 28

Govt secs declined 350 million
accept buying rates rose from 3 – 3 1/2 % at
beginning of year to 4 1/2 to 5 at end of July

~~after~~
May to August loans & investments of
Mb. M bks. declined considerably

* Ask Goldenw. to consider period between
Aug 5. 27 (3 1/2) and Feb. 3. 28 (4 %) and
whether FR. disc. rates shld have been
increased earlier during this 7 months –
were not growth of acc. holdings
and then any inflation.

1927

In April in following coal strike mineral production was sharply reduced and later in the spring Manufacturers began to reduce operations. Industrial production declined slightly over rest of year.

Recession of business in last half of year

Decrease in residential & industrial building operations

Farm prices rose 11% from April to August.

Business profits declined during year

Commer. loans decreased during the year.

Security loans incr. 16%

Broker loans + 33%

Gold imports used to take down debts – to a very low point

1927

1st 4 months large gold imports
[illegible] liquidated discounts to low level.
Feb + Mar. bus. good & gold imports
continued
Market stable + 1 billion
Money rates constant
No change in disc rates
No open mkt operations

In June clearly defined business
recession.
Gold exports began
In May 95 million gold melted
on Europe account
Offset by imports of 30 million
FRBs bought 60 million gold
from France
France purchased large amt
of gold in NY - earmarked
FRBs offset the gold
withdrawals by purch. Govt
secs

June + July
FRBs sold the gold held
abroad

June - Sept
FRBs bought 80 million
Govt secs to ease credit
situation
Small vol of bus. recess.
Large industry, and business

condition in money market

easy money also to help business of our exports

When successful in easy the money market & helping [illegible] [illegible] situation

Disc rates red to 3 1/2

increased differ. bet rates in US and abroad and led to gold exports

These gold exports went to Argentina and Brazil & in smaller amounts to England etc.

All gold was earmarked.

Sept 1 – Jan 1, 28 we lost 209 million of gold.

Until Nov. gold exports offset by buying Gov secs.

From then on gold export not offset & led to increased discounts

Would offsetting bec. no demand for add. credit for com & bus. & great increase of credit used in secur. loans & invests.

In Year 1927

Minded + 130

offset by

gold exports + 70

Net gain 60

M.ch. Ms. bals. + 180 7

Partly came on inc of bills + Secs. held in excess of withdrawals of gold

In larger part on other sources which withdrawal of money on credits.

M Notes

Gold exports made caused money + M Syst took no action market trade marked.

In Spring + Summer,

In absence of considerable gold exports

System cared [illegible].

In early autumn

abbrev in part gold exports

In closing months

[illegible] obviously in view of [illegible] increase in M. bank credit.

Loose ch Drain - what attitude did Bd take bet. 3 1/2 rate of Aug. + increase to 4% in Feb 3. 28 (N.Y.).

sou 7h

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 20, 1930

To Mr. Hamlin

Subject: Increase inbrokers' loans for account of "others" between February and June 1929.

From Mr. Smead

2—8495 GPO

CSH

In response to your request of May 19 for information regarding the increase that took place in brokers' loans made by New York banks for the account of "others" between February and June 1929, we have prepared and are attaching hereto a table showing the following information by weeks for the five month period in question:

1. Brokers' loans by reporting member banks in New York City -- total, for account of banks, and for account of "others."

2. Loans on securities of all weekly reporting member banks -- classified.

3. Weekly average call loan renewal rate.

4. Standard Statistics Company index of the prices of 90 common stocks.

5. Number of shares of stock sold on the New York Stock Exchange.

It will be noted from the table that during the period between February 6 and June 12 there was an increase of $290,000,000 in brokers' loans made by reporting member banks in New York City for the account of "others," while brokers' loans for own account and for out-of-town banks declined $675,000,000, making a net reduction in total brokers' loans of $385,000,000. In the same period loans to brokers and dealers by all weekly reporting member banks declined $656,000,000, but this was offset in part by the fact that loans on securities made by the member banks to non-broker customers increased $307,000,000.

It would appear, therefore, that although the banks were able to bring about a substantial reduction in their own brokers' loans, the continued demand for credit for speculative purposes was largely met, first, by the additional funds ($290,000,000) supplied by corporations, foreign banking agencies, etc., and second, through direct borrowings ($307,000,000) on the part of the individual speculators from their own banks.

No statistics have been compiled to show the exact sources of the funds supplied to the market by "others," but a substantial part undoubtedly came from investment trusts which had sold their own securities to the public and were loaning the proceeds in the call loan market at high rates pending the time when securities could be purchased at lower levels. The high call loan rates which prevailed during this time proved

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a very strong attraction, not only to investment trusts but to many large corporations with substantial surplus funds received largely from the sale of newly issued securities. The fact that investment trusts and other corporations found it exceedingly easy to float security issues, owing to the intense speculative activity, played an important part in supplying them with funds which they in turn could loan out to brokers at the high rates then prevailing.

The average weekly call loan renewal rate ranged between 8 and 12 per cent during a considerable part of this period and at no time went below 6 per cent. There is not much doubt but that this high call loan rate was the principal factor that brought such a large volume ($2,900,000,000 on June 12) of non-bank funds into the market. It is also quite apparent that with the policy followed by the banks during the period of about a year and a half ending June 1929 (during which period the banks' brokers' loans actually showed a considerable reduction), security prices would not have reached anywhere near the level they did if the brokers had not been able to borrow any appreciable amount from non-bank sources.

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SECURITY LOANS OF REPORTING MEMBER BANKS, CALL LOAN RENEWAL RATES, ETC., BEGINNING JANUARY 1929

Date 1929	Brokers loans by reporting member banks in New York City: Total	Brokers loans: Own account and out-of-town banks	Brokers loans: For others	Loans on securities of all weekly reporting member banks: Total	To brokers and dealers: In New York City	To brokers and dealers: Outside N. Y. City	To others	Weekly average call loan renewal rate* (Per cent)	Standard statistics index of common stock market prices	Number of shares of stock sold on New York Stock Exchange during the week*
	(Millions of dollars)									
Jan. 2	5,330	3,164	2,166	7,818	Not available			10.50	197.	23,769,000
9	5,313	2,957	2,356	7,440				6.60	194.9	22,686,000
16	5,395	2,943	2,452	7,461	1,726		5,735	7.20	195.0	23,567,000
23	5,443	2,863	2,579	7,364	1,650		5,714	6.	200.3	27,436,000
30	5,559	2,943	2,615	7,446	1,724	803	4,919	6.60	202.1	25,539,000
Feb. 6	5,669 NY 4%	3,048	2,621	7,558	1,771	816	4,971	6.60	202.4	22,565,000
13	5,568	2,957	2,612	7,515	1,705	828	4,982	7.13	198.1	18,538,000
20	5,477	2,809	2,668	7,444	1,574	837	5,033	7.	195.3	12,983,000
27	5,507	2,783	2,724	7,573	1,589	862	5,122	7.70	203.2	25,074,000
Mar. 6	5,647	2,824	2,823	7,573	1,582	870	5,120	8.80	197.9	23,001,000
13	5,627 NY 3½%	2,766	2,862	7,511	1,492	888	5,131	7.40	200.4	23,247,000
20	5,793	2,859	2,934	7,642	1,594	902	5,146	8.40	206.6	26,096,000
27	5,649	2,751	2,898	7,592	1,525	865	5,202	12.75	199.2	24,822,000
Apr. 3	5,562	2,673	2,889	7,516	1,428	859	5,229	10.	197.4	19,994,000
10	5,427	2,545	2,882	7,380	1,315	836	5,228	8.	196.8	17,502,000
17	5,425	2,539	2,886	7,353	1,291	831	5,231	7.90	201.1	16,658,000
24	5,492	2,576	2,916	7,319	1,349	828	5,143	8.	204.5	20,860,000
4-25 N.Y. 5% [illegible]										
May 1	5,532	2,656	2,876	7,371	1,384	815	5,171	11.40	206.4	22,976,000
8 (4 2)	5,551 NY 3%	2,598	2,953	7,241	1,280	810	5,151	12.40	207.9	20,330,000
15	5,565	2,585	2,979	7,221	1,285	796	5,140	9.20	205.2	19,639,000
22	5,520	2,478	3,042	7,144	1,179	798	5,167	6.60	196.6	21,362,000
29	5,288	2,313	2,975	7,112	1,072	808	5,231	6.	195.5	16,098,000
June 5	5,284	2,350	2,934	7,197	1,122	808	5,267	6.80	203.2	16,984,000
12	5,284	2,373	2,911	7,209	1,135	796	5,278	7.60	202.1	14,136,000
19	5,420	2,475	2,945	7,382	1,260	811	5,311	7.	209.	17,045,000
26	5,542	2,574	2,969	7,539	1,389	808	5,343	9.40	214.9	19,848,000

*Week ending Saturday.

DIVISION OF BANK OPERATIONS
MAY 23, 1930.

SECURITY LOANS OF REPORTING MEMBER BANKS, CALL LOAN RENEWAL RATES, ETC., BEGINNING JANUARY 1929

Date 1929	Brokers loans by reporting member banks in New York City			Loans on securities of all weekly reporting member banks				Weekly average call loan renewal rate* (Per cent)	Standard statistics index of common stock market prices	Number of shares of stock sold on New York Stock Exchange during the week*
					To brokers and dealers					
	Total	Own account and out-of-town banks	For others	Total	In New York City	Outside N.Y.City	To others			
	(Millions of dollars)									
July 3	5,769	2,834	2,934	7,761	1,611	795	5,355	11.	223.8	18,705,000
10	5,755	2,825	2,930	7,704	1,573	808	5,322	8.60	223.9	23,152,000
17	5,813	2,812	3,002	7,644	1,541	783	5,319	9.80	228.1	23,030,000
24	5,908	2,874	3,034	7,683	1,600	773	5,309	7.60	227.4	19,637,000
31	5,960	2,902	3,058	7,787	1,622	785	5,380	9.80	229.3	18,051,000
Aug. 7	6,020	2,877	3,143	7,715	1,537	812	5,366	9.60	231.3	17,109,000
14	5,952	2,775	3,178	7,572	1,407	801	5,365	7.40	235.2	22,343,000
21	6,085	2,713	3,372	7,510	1,344	795	5,371	7.	242.6	23,688,000
28	6,217	2,749	3,468	7,515	1,374	778	5,364	8.20	246.1	20,325,000
Sept. 4	6,354	2,888	3,467	7,632	1,475	786	5,371	9.	251.9	22,412,000
11	6,474	2,858	3,616	7,578	1,416	783	5,378	8.20	250.4	26,400,000
18	6,569	2,944	3,626	7,686	1,482	797	5,407	8.40	251.6	23,475,000
25	6,761	2,900	3,860	7,720	1,429	834	5,457	8.40	245.	21,955,000
Oct. 2	6,804	2,897	3,907	7,828	1,455	863	5,509	8.20	239.8	23,927,000
9	6,713	2,772	3,941	7,687	1,335	813	5,539	6.20	240.4	19,140,000
16	6,801	2,926	3,875	7,875	1,526	801	5,548	6.40	232.2	20,811,000
23	6,634	2,810	3,823	7,920	1,480	810	5,630	6.	211.2	37,508,000
30	5,538	3,075	2,464	9,179	2,306	913	5,959	5.80	182.6	43,500,000
Nov. 6	4,882	2,483	2,399	8,746	1,776	842	6,129	6.	163.7	22,516,000
13	4,172	1,968	2,204	8,369	1,345	836	6,188	5.90	140.2	27,491,000
20	3,587	1,557	2,031	7,991	1,025	767	6,199	5.	168.9	14,362,000
27	3,450	1,468	1,982	7,889	986	715	6,189	4.50	166.1	8,087,000
Dec. 4	3,392	1,471	1,921	7,889	969	707	6,213	4.50	175.1	22,854,000
11	3,425	1,516	1,909	7,818	1,016	681	6,121	4.50	177.7	23,109,000
18	3,386	1,582	1,804	7,898	1,086	684	6,128	4.50	170.1	18,008,000
24	3,328	1,561	1,767	7,931	1,091	700	6,140	5.50	161.9	13,053,000
31	3,424	1,876	1,548	8,304	1,416	739	6,149	6.00	170.3	13,159,000

*Week ending Saturday.

DIVISION OF BANK OPERATIONS
MAY 23, 1930.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 23, 1930

To Mr. Hamlin

Subject: Brokers' loans, call loan renewal rates, etc.

From Mr. Smead WH

2-8495

In accordance with the request contained in your memorandum of May 20, there is transmitted herewith a table covering the period January 1, 1929 to date, in the same form as the one enclosed with our memorandum of May 20 which covered only the 5 month period February - June, 1929.

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SECURITY LOANS OF REPORTING MEMBER BANKS, CALL LOAN RENEWAL RATES, ETC., BEGINNING JANUARY 1929

Date 1930	Brokers loans by reporting member banks in New York City: Total	Own account and out-of town banks	For others	Loans on securities of all weekly reporting member banks: Total	To brokers and dealers: In New York City	Outside N.Y.City	To others	Weekly average call loan renewal rate* (Per cent)	Standard statistics index of common stock market prices	Number of shares of stock sold on New York Stock Exchange during the week*
	(Millions of dollars)									
Jan. 8	3,352	1,710	1,642	7,906	1,183	679	6,044	4.60	169.1	11,497,000
15	3,365	1,730	1,636	7,854	1,229	651	5,973	4.50	171.9	13,020,000
22	3,341	1,688	1,653	7,733	1,199	636	5,899	4.50	171.8	14,468,000
29	3,345	1,698	1,648	7,681	1,202	632	5,847	4.40	177.5	18,927,000
Feb. 5	3,402	1,855	1,547	7,692	1,322	607	5,763	4.40	185.1	20,411,000
12	3,450	1,913	1,536	7,682	1,361	587	5,734	4.	185.2	15,367,000
19	3,494	1,949	1,545	7,669	1,406	592	5,671	4.40	183.2	16,797,000
26	3,489	1,933	1,556	7,641	1,409	583	5,649	4.40	183.5	16,297,000
Mar. 5	3,583	2,037	1,545	7,737	1,502	578	5,658	4.	185.5	19,480,000
12	3,720	2,225	1,494	7,883	1,711	568	5,604	3.90	186.3	20,435,000
19	3,841	2,437	1,404	8,054	1,931	571	5,551	3.	190.8	23,424,000
26	3,820	2,542	1,278	8,183	2,076	593	5,513	3.80	195.5	26,245,000
Apr. 2	3,968	2,652	1,316	8,244	2,163	607	5,475	4.40	199.4	28,959,000
9	3,994	2,655	1,339	8,163	2,143	605	5,414	4.	205.4	28,796,000
16	4,124	2,732	1,392	8,238	2,217	620	5,401	4.	203.0	16,708,000
23	4,217	2,781	1,436	8,326	2,250	638	5,439	4.	202.9	26,924,000
30	4,274	2,878	1,397	8,381	2,339	631	5,411	3.90	197.7	30,310,000
May 7	4,074	2,733	1,341	8,259	2,222	652	5,385	3.20	185.1	25,977,000
14	4,007	2,688	1,320	8,246	2,212	657	5,377	3.	195.1	

*Week ending Saturday.

DIVISION OF BANK OPERATIONS
MAY 23, 1930.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 28, 1930

To Mr. Hamlin

From Mr. Smead

Subject: Brokers' loans, call loan renewal rates, etc.

2—8495

In response to your memorandum of May 26, I am handing you herewith a table for the year 1928, similar to the one covering 1929-1930 given you on May 23, showing brokers' loans, loans on securities, call loan renewal rates, etc.

You will note that loans on securities are shown in total only as reporting member banks were not required to classify such loans prior to 1929.

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SECURITY LOANS OF REPORTING MEMBER BANKS, CALL LOAN RENEWAL RATES, ETC.,
BEGINNING JANUARY 1929

Date 1928	Brokers loans by reporting member banks in New York City: Total	Own account and out-of-town banks	For others	Loans on securities	Average call loan renewal rate*	Index of stock prices**	Shares of stock sold***
	(In millions of dollars)				(Per cent)		
Jan. 4	3,810	2,882	928	7,022	4.88	140.7	13,036,000
11	3,820	2,824	996	6,806	4.20	137.8	14,479,000
18	3,788	2,795	993	6,742	4.10	137.1	10,275,000
25	3,789	2,747	1,041	6,673	3.70	139.1	14,554,000
Feb. 1 4%	3,816	2,764	1,052	6,769	4.55	139.2	12,530,000
NY "3 8	3,835	2,725	1,110	6,634	4.40	138.9	14,329,000
15	3,819	2,683	1,136	6,566	4.44	138.2	10,129,000
21	3,728	2,589	1,140	6,510	4.25	135.9	9,704,000
29	3,722	2,573	1,149	6,554	4.45	137.1	9,458,000
Mar. 7	3,696	2,480	1,215	6,510	4.25	139.6	15,378,000
14	3,746	2,536	1,210	6,614	4.50	142.2	20,587,000
21	3,779	2,494	1,285	6,545	4.45	148.1	19,743,000
28	3,825	2,548	1,278	6,675	4.65	150.0	23,337,000
Apr. 4	3,979	2,765	1,215	6,953	5.00	150.8	15,732,000
11	3,994	2,793	1,201	6,875	5.45	154.4	21,499,000
18	4,129	2,867	1,263	6,920	4.90	155.0	21,660,000
25	4,144	2,814	1,331	6,949	4.95	153.5	17,736,000
May 2	4,282	2,915	1,366	7,092	5.30	157.5	21,639,000
9	4,361	2,936	1,425	7,048	5.60	160.7	20,172,000
16	4,502	2,968	1,535	7,106	5.60	159.2	21,352,000
"18NY 23 4½%	4,456	2,854	1,602	7,035	6.00	156.8	14,739,000
29	4,469	2,827	1,642	7,097	6.00	157.4	14,211,000
June 6	4,563	2,809	1,755	7,052	6.10	156.1	19,194,000
13	4,428	2,697	1,731	6,997	5.80	150.0	19,701,000
20	4,270	2,532	1,737	6,911	6.00	147.5	11,416,000
27	4,178	2,424	1,754	6,888	7.00	149.8	9,349,000
July 3 5%	4,307	2,626	1,681	7,151	6.75	153.2	8,445,000
11	4,243	2,496	1,747	7,003	6.40	150.5	11,632,000
"13 18 5%	4,194	2,407	1,787	6,854	5.80	151.1	6,935,000
25	4,184	2,361	1,824	6,815	5.50	152.5	8,730,000
Aug. 1	4,259	2,405	1,854	6,954	6.60	154.2	10,795,000
8	4,274	2,388	1,885	6,860	6.50	152.9	11,403,000
15	4,223	2,342	1,881	6,781	6.60	154.6	13,027,000
22	4,201	2,322	1,880	6,745	6.80	159.0	16,164,000
29	4,235	2,328	1,907	6,740	7.40	163.4	20,006,000
Sept. 5	4,289	2,429	1,861	6,860	7.50	167.3	19,377,000
12	4,385	2,464	1,921	6,814	7.40	168.0	23,040,000
19	4,470	2,559	1,911	6,874	7.30	168.2	23,305,000
26	4,525	2,524	2,001	6,811	6.90	169.9	23,012,000
Oct. 3	4,570	2,612	1,958	6,865	7.50	168.3	21,397,000
10	4,590	2,582	2,008	6,807	6.50	170.0	18,323,000
17	4,664	2,623	2,041	6,856	7.00	173.0	23,868,000
24	4,772	2,694	2,078	6,882	6.50	174.6	24,472,000
31	4,907	2,753	2,154	6,958	7.50	172.2	19,689,000
NY. Nov 1. 5%							
Nov. 7	4,979	2,790	2,188	7,031	6.38	Holiday	20,137,000
NY Nov 15 14 4½%	4,981	2,745	2,235	6,947	6.20	181.9	31,308,000
21	5,157	2,877	2,280	7,104	6.50	184.4	33,456,000
28	5,290	3,003	2,287	7,246	7.38	192.1	23,386,000
Dec. 5	5,395	3,109	2,285	7,282	8.80	189.1	28,033,000
12	5,176	2,839	2,337	7,150	8.00	178.8	23,165,000
19	5,111	2,780	2,331	7,129	7.20	182.5	16,473,000
26	5,091	2,769	2,322	7,230	10.00	186.1	17,592,000

*Week ending Saturday.
**Standard Statistics Company index of market prices of 90 common stocks.
***Number of shares sold on the N.Y. Stock Exchange during the week ending Friday.

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CHANGES IN LOAN ACCOUNT OF ALL WEEKLY REPORTING MEMBER BANKS DURING SELECTED PERIODS

(In millions of dollars)

Dates	Total loans	Loans on securities				All other loans
		Total	To brokers and dealers in New York	To brokers and dealers outside N.Y.	To others	
1928 - Jan. 4	15,674	7,022	(Figures	not	available)	8,652
1929 - Jan. 2	16,803	7,818	"	"	"	8,985
Change	+ 1,129	+ 796				+ 333
1928 - Feb. 8	15,247	6,634	(Figures	not	available)	8,614
1929 - Feb. 6	16,254	7,558	1,771	816	4,971	8,696
Change	+1,007	+ 924				+ 82
1929 - Feb. 6	16,254	7,558	1,771	816	4,971	8,696
June 5	16,337	7,197	1,122	808	5,267	9,140
Change	+ 83	- 361	- 649	- 8	+ 295	+ 444
1929 - June 5	16,337	7,197	1,122	808	5,267	9,140
Aug. 7	17,044	7,715	1,537	812	5,366	9,329
Change	+ 707	+ 518	+ 415	+ 4	+ 99	+ 189
1929 - Aug. 7	17,044	7,715	1,537	812	5,366	9,329
Oct. 9	17,269	7,687	1,335	813	5,539	9,582
Change	+ 225	- 28	- 202	+ 1	+ 173	+ 253

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
SEPTEMBER 26, 1930

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CHANGES IN LOAN ACCOUNT OF WEEKLY REPORTING MEMBER BANKS IN NEW YORK CITY

(In millions of dollars)

Dates	Total	Loans on securities				All other loans	Loans to brokers and dealers			
		Total	To brokers and dealers in New York	To brokers and dealers outside N.Y.	To others		Total	For own account	For out-of-town banks	For "others"
1928 - Jan. 4	5,404	2,915	1,511*	(Not	1,404	2,489	3,810	1,511	1,371	928
1929 - Jan. 2	5,838	3,259	1,516	available)	1,743	2,579	5,330	1,516	1,648	2,166
Change	+ 434	+ 344	+ 5*		+ 339	+ 90	+1,520	+ 5	+ 277	+1,238
1928 - Feb. 8	4,985	2,537	1,171*	(Not available)	1,366	2,448	3,835	1,171	1,554	1,110
1929 - Feb. 6	5,321	2,857	1,078	38	1,741	2,464	5,669	1,116	1,931	2,621
Change	+ 336	+ 320	- 55*		+ 375	+ 16	+1,834	- 55	+ 377	+1,511
1929 - Feb. 6	5,321	2,857	1,078	38	1,741	2,464	5,669	1,116	1,931	2,621
June 5	5,409	2,678	797	40	1,841	2,731	5,284	837	1,513	2,934
Change	+ 88	- 179	- 281	+ 2	+ 100	+ 267	- 385	- 279	- 418	+ 313
1929 - June 5	5,409	2,678	797	40	1,841	2,731	5,284	837	1,513	2,934
Aug. 7	5,775	2,961	1,045	43	1,873	2,813	6,020	1,089	1,789	3,143
Change	+ 366	+ 283	+ 248	+ 3	+ 32	+ 82	+ 736	+ 252	+ 276	+ 209
1929 - Aug. 7	5,775	2,961	1,045	43	1,873	2,813	6,020	1,089	1,789	3,143
Oct. 9	5,756	2,836	930	43	1,863	2,921	6,713	973	1,799	3,941
Change	- 19	- 125	- 115	-	- 10	+ 108	+ 693	- 116	+ 10	+ 798

* Includes loans on securities to brokers and dealers Outside New York City.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
SEPTEMBER 26, 1930

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec 12A

Date September 30, 1930

To Mr. Hamlin

Subject: Continuous borrowings

From Mr. Smead

February - June 1929, etc.

2—8495

In your memorandum of September 29, you asked among other things for a statement showing the effect of direct pressure on frequent or continuous borrowers from February 2 to June 10, 1929. You say you would like a statement showing exactly how much this borrowing was reduced.

1. You will recall that during the first part of 1929 the System let its holdings of bankers' acceptances decline from an average of $384,000,000 in February to $99,000,000 in June or by about $285,000,000. Part of this liquidation was made possible by a net increase of $168,000,000 in our monetary gold stock. Part of the balance was offset by a decline in member bank deposits and consequently in required reserves and part by increased borrowings from reserve banks. This being so, one could hardly expect any material reduction in indebtedness of frequent or continuous borrowers. As a matter of fact, there were 1,528 banks borrowing continuously from the Federal reserve bank during the second quarter of 1929 with average daily borrowings of $416,000,000 whereas during the first quarter there were only 1,091 continuous borrowing banks with average daily borrowings of $377,000,000. Based on available figures it would appear that this increase of nearly 50 per cent in the number of continuous borrowers in the second quarter, with an increase of something over 10 per cent in the average daily borrowings, occurred principally in the country banks. You will recall that early in 1929, the Board had us select a list of weekly reporting member banks which were frequent or continuous borrowers from the Federal reserve banks and were at the same time making substantial security loans. Weekly borrowings of these 50 selected banks from February 6 to June 12 were as follows:

(In millions of dollars)

Feb. 6	278,669	Apr. 3	338,181
13	325,657	10	403,453
20	273,037	17	416,981
27	328,108	24	372,580
Mar. 6	351,046	May 1	331,727
13	319,216	8	333,860
20	293,957	15	282,763
27	357,713	22	258,869
		29	244,503
		June 5	224,998
		12	219,178

You will note from these figures that the aggregate borrowings of these 50 banks tended to increase until about the middle of April from which point

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there was a substantial decline, until on June 12 they were $219,000,000, or about $60,000,000 less than on February 6 and nearly $200,000,000 less than on April 17.

2. The daily average reserve ratio of the Federal Reserve Bank of New York, by months in 1929, was as follows:

January	70.4	July	68.9
February	78.6	August	73.3
March	79.0	September	76.0
April	79.2	October	82.2
May	81.1	November	78.1
June	79.7	December	65.2
		Year	75.9

3. (a) Between February 1, 1928 and January 30, 1929 the amount of U. S. securities held by Federal reserve banks declined from $433,661,000 to $201,771,000 or by $231,890,000; (b) Between February 1, 1928 and January 30, 1929, net gold exports amounted to $330,609,000, imports amounting to $179,091,000 and exports to $509,700,000; (c) on February 1, 1928 the amount of money in circulation was $4,670,000,000 and on January 30, 1929, $4,630,000,000, a reduction of $40,000,000.

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THE DISCOUNT RATE CONTROVERSY BETWEEN THE FEDERAL RESERVE BOARD and THE FEDERAL RESERVE BANK OF NEW YORK

-1- November, 1930.

The Federal Reserve Bank of New York, in its Annual Report for the year 1929, stated: -

> "For a number of weeks from February to May, 1929, the Directors of the Federal Reserve Bank of New York voted an increase in the discount rate from 5% to 6%. This increase was not approved by the Board."

Annual Report, Page 6.

-2-

The above statement makes clear the error of the prevailing view that the discount rate controversy lasted from February 14, 1929, - the date of the first application for increase in discount rates, - to August 9, 1929, the date of the Board's approval of the increase from 5% to 6%.

The controversy began on February 14, 1929, but practically ended on May 31, 1929.

On May 22, 1929, Governor Harrison and Chairman McGarrah told the Board that while they still desired an increase to 6%, they found that the member banks, under direct pressure, feared to increase their borrowings, and that they wanted to encourage them to borrow to meet the growing demand for commercial loans.

16 Diary 76 (69).

Furthermore, on May 31, 1929, Chairman McGarrah wrote to the Federal Reserve Board that the control of credit without increasing discount rates

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(direct pressure) had created uncertainty; that agreement upon a program to remove uncertainty was far more important than the discount rate; that in view of recent changes in the business and credit situation, his directors believed that a rate change now without a mutually satisfactory program, might only aggravate existing tendencies; that it may soon be necessary to establish a less restricted discount policy in order that the member banks may more freely borrow for the proper conduct of their business; that the Federal reserve bank should be prepared to increase its portfolio if and when any real need of doing so becomes apparent.

195 - 65.

On June 5, 1929, Mr. Mitchell came before the Board and urged a more liberal discount policy and an easing of conditions by purchase of bills and Government securities, leaving the discount rate at 5%, to be increased only if speculation should revive.

16 Diary 99, 100 (198).

The Federal Reserve Board, as hereinafter pointed out, on June 12, 1929, expressed a willingness to suspend direct action in view of the need of more Federal reserve credit, the 5% rate, however, to be continued for the present, at least.

16 Diary 108, 109 (76).

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It is the purpose of this article to examine into the facts connected with this controversy, and the divergence of opinion between the Board and the Federal Reserve Bank of New York as to the proper Federal reserve policy.

The annexed table shows the discount and acceptance buying rates of the Federal Reserve Bank of New York prior to and since the controversy:

Discount Rates		Acceptance Buying Rates 60 to 90 days	
1927		1927	
August 5	3½%	August 5	3¼%
1928		1928	
		January 27	3-3/8%
February 3	4%	February 3	3½%
		March 30	3-5/8%
		April 13	3-3/4%
May 18	4½%	May 18	4%
July 13	5%	July 13	4¼%
		July 20	4½%
1929		1929	
		January 4	4¾%
		January 21	5%
		February 15	5-1/8%
		March 21	5-3/8%
		March 25	5½%
		July 12	5¼%
August 9	6%	August 9	5-1/8%
		October 25	5%
November 1	5%	November 1	4¾%
November 15	4½%	November 15	4¼%
		November 22	4%
1930		1930	
February 7	4%		
		February 11	3-7/8%
		February 24	3¾%
		March 5	3-5/8%
		March 6	3½%
		March 11	3-3/8%
March 14	3½%	March 14	3¼%
		March 19	3-1/8%
		March 20	3%
		May 1	2-7/8%
May 2	3%	May 2	2¾%
		May 8	2-5/8%
		May 19	2½%
		June 5	2¼%
June 20	2½%	June 20	2%
		July 21	1-7/8 to 2%

The following shows the important dates in connection with the controversy:

1928.

September 28:

The Federal Advisory Council opposed any increase in rates.

November 22:

The Federal Advisory Council opposed any increase in rates because of injury to business.

1929.

January 19:

Dr. Miller told Board the Federal Reserve System was drifting and that rate increase was necessary to effect a curbing of speculation; that the really courageous way would be a public announcement that credit in the future would be available at reasonable rates for agriculture and business, but that the Board would watch the rise in discounts and prevent seepage into Wall Street.

15 Diary 129, 130 (152).

January 21:

Dr. Miller introduced a draft of a letter to all Federal reserve banks suggesting direct pressure on the member banks.

15 Diary 130 (152).

January 25:

Chairman McGarrah informed the Board that his directors were considering issuing a public warning to corporations which were loaning in Wall Street that they were injuring the Federal Reserve System, and in this warning to include an intimation that the collateral behind these loans might prove not to be liquid.

15 Diary 134 (152).

January 25:

Chairman McGarrah objected to the proposed letter to the Federal reserve banks on ground that it would be construed as a blow at the stock market.

15 Diary 134 (153).

February 2:

Dr. Miller's motion was passed, some changes having been made in the letter.

15 Diary 143, 144 (154).

1929 (Cont'd.).

February 2:

The executive officers of the Federal Reserve Bank of New York favored an increase in discount rates but there was objection in the Board of Directors.

15 Diary 143 (44).

February 5:

The Board sent letters to all Federal reserve banks pointing out the seepage of Federal reserve credit into speculative channels and asked how they kept informed of the use made of the proceeds of rediscounts, the methods employed to regulate the abuse and how effective the methods had been.

187 - 107.

February 5:

Governor Harrison informs the Board that an increase in discount rates is necessary; that direct action as to banks "out of line" had proved a failure.

15 Diary 149, 150, 151, 154 (46).

February 7:

Public warning of Federal Reserve Board released to press. This will be referred to in some detail later.

187 - 113.

Governor Harrison informs Board that his directors are considering an increase in discount rates.

15 Diary 160 (47).

February 11:

The New York directors met but took no action as to increasing discount rates.

15 Diary 166 (48).

February 14:

The Federal Reserve Bank of New York applied for approval of an increase to 6% on condition that the Board immediately act on the same.

This was the first application for an increase.

It was disapproved by the Board, as also were similar applications made March 3, March 21, March 28, April 4, April 18, April 25, May 9, May 16, and May 23.

1929. (Cont'd.)

February 15:

The Federal Advisory Council met and approved the Board's warning published February 7, but advised the Board to go further and obtain the cooperation of member banks to prevent the diversion of Federal reserve credit to "loans on securities" generally, - meaning customers security loans.

15 Diary 173, 174 (51).

The Federal Advisory Council further advised the Board not to approve any increase of discount rates until the Board's efforts along the lines of direct pressure had been exhausted. The Council, when making its recommendations, did not know of the action of the Federal Reserve Bank of New York in recommending an increase in discount rates the day before.

15 Diary 175, 176 (52).

March 21:

Governor Young suggests a conference as to discount rates with the New York directors. Governor Harrison replied Yes but discount rates must first be increased.

April 4:

The Governors Conference, accepting the desire of Boston, New York, and Chicago for an increase to 6%, favored a rate not less than 5% for the other Federal reserve banks.

16 Diary 15 (58).

April 19:

The Federal Advisory Council reverses its recommendation of February 15 and advises an increase at New York to 6%.

May 1:

Report of Committee on recent economic changes. Rather "bullish" in its optimism. Nothing much to worry about. The degree of progress in recent years inspires us with high hope.

May 17:

The Federal Reserve Bank of Cleveland passes a resolution favoring an increase in the New York discount rate to 6% to curb speculation.

16 Diary 64 (97).

1929. (Cont'd.)

May 21:

The Federal Advisory Council recommends an increase to 6%.

16 Diary 15 (58).
16 Diary 25 (91).

May 22:

Governor Young points out that Federal Reserve Bank of New York has not mentioned an increase in buying rates for acceptances in connection with an increase of discount rates; that with a 6% discount rate, acceptance rates remaining at 5½%, acceptances would flow into the Federal Reserve Bank.

May 29:

New York suggests a conference of all Federal reserve banks as national questions are involved.

16 Diary 91 (92).

May 31:

Chairman McGarrah writes Board asking it to take up a program for encouraging member banks to increase their borrowings.

195 - 81.

June 3:

Director Mitchell of New York told the Board that the market should be eased by buying bills or Government securities; that the discount rate should remain at 5% and that a more liberal discount policy should be adopted.

16 Diary 100 (74).

June 12:

The Federal Reserve Board, after a conference between its Committee and the directors of the Federal Reserve Bank of New York, sent a letter to Chairman McGarrah indicating a willingness to suspend direct pressure, except as to a few flagrant cases of continuous borrowing,

1929. (Cont'd.)

June 12: (Cont'd).

the 5% rate, however, to continue for the present.

16 Diary 108, 109 (54).

July 16:

Director Mitchell told Dr. Miller that an easing policy was absolutely necessary, although he said that Governor Harrison still favored an increase in the discount rate.

16 Diary 132 (199).

August 2:

Governor Harrison came before the Board and favored an easing policy through purchases of bills, Government securities, or both if necessary.

While he also asked for an increase in discount rates to 6%, he stated that this would merely act as a barrage which would make the acceptance buying rate (then 5¼%) lower than the discount rate, thus increasing the flow of acceptances into the Federal reserve bank and would, at the same time, induce the member banks to use part, at least, of the money received from the sale of acceptances for reduction of their rediscounts.

16 Diary 149 (80).

August 7:

The Governors, in conference, favored an easing policy as recommended by Governor Harrison, but through purchase of acceptances rather than Government securities, and approved his suggestion of an increase to 6% at New York but on the understanding and their assurance that the 5% rate would be maintained at the other Federal reserve banks.

16 Diary 152, 153 (81).

August 8:

The Board approved the policy as outlined by the Governors.

16 Diary 153 (81).

August 8:

The Board approved a reduction of the buying rate on acceptances from 5¼ to 5-1/8%.

Having outlined the important dates involved, we can now consider the difference as to discount policy which arose between the Federal Reserve Board and the Federal Reserve Bank of New York.

The Board had anxiously observed the wave of security speculation sweeping over the country, and during the year 1928 three increases of discount rates and three increases of acceptance buying rates had been approved, viz: - in discount rates, to 4% on February 3, to 4½% on May 18, and 5% on July 13, while acceptance buying rates had been several times increased, being 4½% on July 26, 1928.

In 1929 acceptance buying rates were increased from 4¾% on January 4, to 5½% on March 25.

Between February 15, 1928 and February 13, 1929, the System had sold 231 millions, net, of Government securities, and money in circulation had been reduced 16 millions.

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Between July 13, 1928, - the date of the establishment of the 5% rate at New York, - and February 14, 1929, - the date of the first application of New York for an increase to 6%, a period of seven months, no change in the discount rate was suggested by the Federal Reserve Bank of New York.

It will be interesting to consider the course of Federal reserve credit during this period of seven months.

As above pointed out, between January 1 and July 13, 1928, there had been three increases in discount rates, and the System had sold about 400 millions of Government securities, under a Federal reserve policy of firming conditions, approved by the Federal Advisory Council, the Open Market Committee, and by the Board.

On August 16, 1928, the Federal Reserve Bank of New York represented to the Board that seasonal requirements might produce some credit strain which might react on business and commerce, and the Board stated that in such event it would permit easing of the market by bill purchases, and that it would further, if absolutely necessary, permit the purchase of Government securities up to the limit of 100 millions.

The Federal Reserve Bank of New York met the seasonal credit demand, as authorized by the Federal Reserve Board, by the purchase of acceptances, substantially no Government securities being bought. It was clearly understood, however, that Federal reserve policy permitted these acceptance purchases merely for the purpose of meeting credit strain, should such strain arise.

As a fact, however, the Federal Reserve Bank of New York acting for the other banks as well, between July and November, 1928, increased their holdings of acceptances by 286 million dollars. That this amount was far beyond any possible need of increased credit, is shown by the fact that largely out of the proceeds of these sales the member banks not only met all seasonal credit demands, but actually paid off about 193 millions of their rediscounts. As a result of these purchases, helped in small degree by gold imports rates on bills and on commercial paper, as well as customers rates, actually declined, contrary to the usual seasonal trend. Member bank reserve balances increased 28 millions, and loans on securities of reporting member banks increased 127 millions.

There would seem to be no possible doubt but that this liberal purchase of bills in excess of credit needs was a factor in the revival of speculation and in the growth of brokers loans. As a fact, the purchase of acceptances had been on such a liberal scale that the Federal reserve banks held for their own account, and for account of their foreign correspondents, about two-thirds of the total volume of outstanding acceptances. The above facts are brought out clearly in the Annual Report of the Board for 1928.

Further, during this period from June to November, 1928, stock prices increased from an average based on 1926 figures, of 150.5 to 192.1; stock sales increased from 11.6 millions to 23.3 millions; brokers loans of the New York banks increased: (a) for own account 176 millions, (b) for other banks 206 millions; (c) "for others" increased 488 millions, the total increase of all these loans being 870 millions.

There is annexed hereto a table showing the course of Federal reserve credit from July to November, 1928, giving both its composition and the relative factors for increase and decrease:

Federal Reserve Credit.

July to November, 1928.

Composition				Total Increase
Discounts		- 193		
Acceptances	+ 286			
U. S. Securities	+ 25			
Other F.R. credit	+ 4			
	+ 315	- 193	=	+ 122

Factors

For increase			For decrease		
Money in circulation	+ 114		Treasury funds	+ 5	
Unemployed capital funds	+ 21		Monetary gold	+ 38	
Non-member bank deposits	+ 2				
Member bank reserves	+ 28				
	+ 165	-		+ 43	= 122

Increases

F. R. credit increase	122
Monetary gold "	38
Treasury currency	5
	165

Deductions

Member bank reserve balances	28
	137
Money in circulation	114
	23
Unemployed capital funds	21
	2
Non-member bank deposits	2
	0

The effect of these acceptance purchases was to nullify the effect of the increase of the discount rate to 5% made on July 13, 1928, and to change Federal reserve policy from one of firming to one of easing the market.

The above is confirmed by Deputy Governor Burgess of the Federal Reserve Bank of New York, who stated in an address before the American Acceptance Council, December 11, 1928:

> "The Taking by the Federal reserve banks of bills offered involved putting into the money market something like 100 millions of dollars more than seasonal credit needs required, which was used by the member banks to liquidate part of their indebtedness, and this tended, in conjunction with gold imports, to ease slightly the money situation."

It is interesting to note that on December 15, 1928, Dr. Miller introduced a resolution favoring higher acceptance buying rates. This resolution, however, failed, but was voted for by Dr. Miller, Platt, and C.S.H.

15 Diary 115 (149).

Such was the situation confronting the Federal Reserve Board at the beginning of January, 1929. It found that its firming policy, agreed upon by the Federal Advisory Council and the Open Market Committee, had in fact been changed by the Federal Reserve Bank of New York into an easing policy.

Federal reserve credit outstanding in January, 1929, was some 226 millions greater than in January, 1928. There was danger that the customary liquidation after the first of the year might not take place and that Federal reserve credit outstanding would

<u>increase</u> in 1929 rather than decrease, just as it increased between January and May, 1928.

In this connection it should be pointed out that for the year ending June 30, 1929, 1,114 banks were borrowing for 80% or more of the time.

195 - 143.

The problem confronting the Board was how to bring about a reasonable liquidation of Federal reserve credit without, at the same time, injuring agriculture and business.

After most careful consideration, the Federal Reserve Board determined to keep the present 5% rate unchanged but to try to reduce outstanding Federal reserve credit by bringing direct pressure, through the Federal reserve banks, upon the member banks to bring about a reasonable liquidation of their speculative loans, or at least not to increase them, and to this end reduce, or at least not increase, their borrowings from the Federal reserve bank to support their required reserves against deposits arising out of these speculative loans.

On February 2, 1929, the Board sent a letter to all Federal reserve banks calling attention to the seepage of Federal reserve credit into the security markets and also released for February 7, 1929, a public statement known as the Board's "warning", which will be considered in detail later.

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Before considering the results obtained from the exercise of direct pressure, with a stable 5% discount rate, it will be advisable to consider the grounds upon which the Federal Reserve Bank of New York based its repeated requests for an increase of the discount rate, and the reasons prompting the Board to disapprove the increase.

The Federal Reserve Bank of New York, as above shown, first asked for an increase to 6% on February 14, 1929, and the Board disapproved the increase as also nine other applications for a similar increase, the last refusal being on May 23, 1929.

In considering the first application, the Board was hampered by the fact that the Federal Reserve Bank had given the Board no official explanation of the reasons prompting it to ask the increase.

It should be remembered that, on October 5, 1928, the Board asked the Federal reserve banks when forwarding applications for changes in rates, to give the reasons for such changes, but that on October 26, 1928, Chairman McGarrah replied that the Bank would be glad to furnish the Board with the main facts presented to the directors at the time of a change in the rediscount rate, but beyond this it would be impracticable to go, owing to the difficulties of attempting to express the reasons which have actuated the different directors in voting to change the rate.

The application of February 14, 1929, was made over the telephone by Governor Harrison, and the Board voted to table it pending an answer of the Bank to the Board's warning letter released February 7.

Finally the Board reconsidered its vote and advised Governor Harrison that it would take the application under review and take no action on that day.

Governor Harrison then told Governor Young that he had not given him the actual vote; that it was in fact conditional on action by the Board on that day; and that his directors could not leave until the Board rendered its decision.

Finally the Board unanimously voted to disapprove the application.
15 Diary 168 to 170 (50).

The disapproval was based as well on the condition imposed by the Federal Reserve Bank of immediate decision by the Board as upon the merits of the application.

The Board felt that it would not be possible to exercise its duty of review and determination upon a telephonic request, giving no official reasons for the change and conditioned on immediate decision of the Board.

Governor Young, however, explained to Governor Harrison that the application involved national as well as local considerations; that if the New York rate was increased to 6%, every Federal reserve bank east of the Mississippi River and very possibly the other Federal reserve banks also would have to make a similar increase, and that a majority of the Board felt that such action might seriously affect agriculture and commerce, and further, that the Board could not decide this important question off hand, on the day of the application, in the absence of any official statement of reasons.

15 Diary 168 (248).

On February 27, 1929, Governor Young in response to a request of the Board on February 14th filed with the Board a memorandum stating the reasons given by the Board to the Federal Reserve Bank of New York, for disapproval of the application, which memorandum was given by him to Director Mitchell of the Federal Reserve Bank of New York.

These reasons in substance were:

1. Sufficient time has not elapsed to determine the effect of the Board's warning published Feb. 7, 1929.

2. The replies received from nearby Federal reserve banks indicate that rate increases should not be begun now.

3. The danger of increased rates encouraging gold imports.

4. The Federal Reserve Bank of New York has furnished the Board with statistics, but has given it no reasons for wishing the increase, and the Board desires reasons.

5. Before consenting to an increase, the Board desires to know to what limits the Federal reserve banks are prepared to go in the event of the increase to 6% not being effective.

6. The Board desires the advice of the Federal Advisory Council now in session, before proceeding on a rate increase program.

This memorandum was placed in the Minutes of February 14th, which were not approved until February 27th.

The second application for increase was an informal one, Governor Young advising the writer on Sunday, March 3rd, that Governor Harrison had told him that his directors earnestly hoped for authority to increase to 6% the next day, as they feared a runaway market.

This application also failed but the "runaway market" did not appear!

15 Diary 184, 185 (54).

The third application was filed on March 21, 1929. It imposed the same condition of immediate action by the Board.

It was pointed out in the Board that the figures revealed a general decline of Federal reserve credit, which, apart from the prevailing speculation would point to the desirability of lower rather than higher discount rates.

The Board disapproved the application with only one dissenting vote.
15 Diary 196, 197 (56).

The fourth application for increase was made on March 28, 1929. The Board disapproved by a vote of 7 to 1.
16 Diary 4 (57).

The fifth application was made on April 4, 1929, and was disapproved by the Board.

On April 9, 1929, Governor Harrison in a letter to the Board, gave for the first time an official statement of the reasons of his Bank for desiring an increase.

The reasons given in substance were that speculative activity had increased interest rates generally in the United States to the injury of business and especially of building construction; that these high rates had prevented the flotation of foreign securities in this country; that they were reducing the purchasing power of Europe and threatening our export trade, and that the high call loan rates were drawing gold from Europe to be invested in the call loan market.

The sixth application was made on April 18, 1929.

It was pointed out in the Board that some of the reasons given for the increase, - necessity for the easing of interest rates, difficulty of placing foreign loans in the United States, the consequent falling off in our export trade, etc., were the very reasons advanced in 1917 for lowering discount rates.

It was also pointed out that the New York Bank apparently felt that higher discount rates would bring about lower call loan rates, but the opinion was expressed that higher discount rates would constitute a firm foundation for higher rather than lower call loan rates.

The Board disapproved the application.

16 Diary 22, 23 (60).

The seventh application was made on April 25, 1929, and the Board disapproved.

16 Diary 38 (63).

The eighth application was made on May 9, 1929, the chief reason given by the New York Bank being a desire to bring the Federal reserve rates into proper relation with market rates.

It was pointed out that a 6% rate was not needed to restore the former relation of rates, - that a rate of 5½% would accomplish this. The Board disapproved.

16 Diary 51 (63).

The ninth application was made on May 16, 1929.

It was pointed out in the Board that Federal reserve credit outstanding was rapidly falling; that a rate of 5½% would be sufficient to restore the old relation of rates.

The Board disapproved.

16 Diary 56 (64).

The tenth and last application for increased rates was made on May 23, 1929.

Federal reserve credit outstanding had been reduced so materially that there was some evidence that an additional amount, perhaps a hundred million dollars, was needed for the purposes of agriculture and business.

While the Board disapproved the application, there was some discussion of a possible compromise, - a lowering of acceptance rates coupled with a 6% discount rate to act as a kind of "Lombard" rate.

16 Diary 78 (69).

From this time on, the necessity of an increased rate was practically dropped from consideration, and on May 31, 1929, Chairman McGarrah, as above pointed out, advised the Board that his directors desired to take up a program of encouraging the banks to borrow.

195 - 85.

The advance in the discount rate to 6% on August 9, was, as already pointed out, a part of a program for easing the money market through lower acceptance rates.

16 Diary 149 (80).

During the discussions above outlined, in which Governor Harrison gave reasons for increasing discount rates, the conditions were rapidly changing. Federal reserve credit outstanding, as shown by total bills and securities of the New York Bank were steadily decreasing, while its reserve ratio was as steadily increasing, as shown in the following table:

<u>Federal Reserve Bank of New York.</u>

Total Bills and Securities 1929.		Reserve Ratio 1929.	
January 2.	709.8	January	70.4%
February 6	325	February	78.6
March 6	349.9	March	79.
April 3	288	April	79.2
May 1	328.3	May	81.1
June 5	253.6	June	79.1

The Board was thus asked to <u>increase</u> discount rates under conditions of falling Federal reserve credit and increasing reserve ratios which, according to the canons of banking practice called for <u>lower</u> rather than higher rates!

It has been generally supposed by the public that the issue between the Federal Reserve Board and the Federal Reserve Bank of New York was simply whether the discount rate should or should not be increased from 5% to 6%.

This supposition is absolutely erroneous.

No one was bold enough to predict with any confidence that a mere increase to 6% would suffice.

The real issue was whether the 5% rate should be maintained coupled with direct pressure on the member banks to liquidate reasonably, or at least not to increase their speculative loans, or, on the other hand, as claimed by the New York Bank, whether the Board should approve a policy of repeated increase of rates, beginning only at 6% and continuing to increase until the "situation should be corrected", that is, until the New York Stock market should be radically deflated.

An appreciation of this fact is necessary to a complete understanding of the real issue between the Board and the Federal Reserve Bank of New York.

That such was the real issue will be apparent from reading the letter sent by Governor Harrison to the Federal Reserve Board dated April 9, 1929, in which he used the following language in justifying the desire of his directors for increased rates:

> "The rate increase would have the further result of giving definite public notice to the country that the Reserve System is ready to supplement and support all its other efforts by <u>an affirmative rate policy</u>.
> "<u>Public realization that the discount rate would be employed incisively and repeatedly, if necessary</u>, would

greatly strengthen the effectiveness of the System's policy, and in itself hasten the time when the System might lend its influence towards easier money conditions." (Italics mine).
195 - 45.

Governor Harrison several times told the Board that if the 6% rate did not "correct the situation" recourse must be had to further increases.
February 5, 1929. 15 Diary 149 to 151 (45). May 22, 1929. 16 Diary 74, 75 (68).

Chairman McGarrah also told the Board that if 6% did not "correct the situation" he would favor an increase to 7%, 8% or even higher.
April 24, 1929, 16 Diary 37 (62).
May 23, 1929, 16 Diary 74, 75 (68).

Mr. Warburg, in his book, "The Federal Reserve System," entertained the same views.
1 - 513.
16 Diary 66 to 70 (257).

It is interesting in this connection to note the editorial in the Manchester Guardian Commercial on March 4, 1929: -

> "There appeared to be some slender hope that the Federal Reserve authorities were meditating action drastic enough to precipitate the crisis in Wall Street, which, in the opinion of most monetary students, must come sooner or later."

189 - 155 (5).

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Such was the issue between the Federal Reserve Board and the Federal Reserve Bank of New York.

The New York Bank wanted quick, radical deflation of the stock market, through rapid increases in discount rates.

Chairman McGarrah admitted that if the policy of incisive, repeated increases did not quickly "correct the situation" the result would be fraught with serious danger to agriculture and commerce.

The Federal Reserve Board felt that the way to solve the problem was to keep the discount rate stable at 5% as a protection to business, but to cut off Federal reserve credit from seeping into Wall Street by direct pressure upon the member banks to reduce, or at least not increase, speculative loans.

If the Board had yielded to the desire of the New York directors and had entered upon a policy of repeated increases of discount rates, the crash in the New York stock market which took place in October, 1929, might have taken place in May or June, 1929, but the resultant injury to business would have been, in all probability, disastrous in the extreme.

The majority of the Board felt, however, as above stated, that the present fever of speculation could not be curbed through the discount rate by any increase short of such extremes as would produce a cataclysm in the market, which, as above stated, would injure business as much as or even more than it would injure the stock market.

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That the discount rate is ineffective in curbing a speculative mania when once underway, is the opinion of many bankers and economists.

For example:

Mr. James Alexander, at a meeting of the Federal Advisory Council on September 28, 1928, stated that speculation could not effectively be controlled by discount rates, and favored a reduction of rates to 4½%.

15 Diary 33, 34, 35 (5).

Professor Hawtry, of London, told the writer the same, adding that in his opinion our discount rates were too high, and were merely injuring business.

January 22, 1929, 15 Diary 131 (43).

Mr. Harry A. Wheeler, a prominent Chicago banker, telegraphed the Board on April 2, 1929, opposing further increase in discount rates, and stating that any increase would add to the heavy burden imposed on the commercial loan group whose rates have been increased in full proportion to rediscount increases, without exercising any permanent restraining influence upon market operations.

190 - 31.

On March 23, 1929, the London Statist criticised Governor Young's address before the Commercial Club, Cincinnati, on March 16, 1929, stating that it revealed a complete bankruptcy of ideas on the subject of credit control; that the obvious remedy for the unhealthy credit situation in the United States would be to lower money rates so as to cause a reflex in the international movement of short-term funds and to encourage lending abroad on the largest scale compatible with safety and profit.

On May 3, 1929, the United States Chamber of Commerce opposed an increase of discount rates solely for the purpose of curbing speculation.

191 - 32.

On May 11, 1929, the London Economist stated:

> "The final lesson is perhaps the most important. It is that when stock prices are rapidly rising, high money rates are only an ineffective deterrent which penalizes the innocent without troubling the guilty.
>
> "The only remedy against rampant speculation is to cut off funds altogether."

193 - 79 (3) (221).

On May 14, 1929, the New York Journal of Commerce stated that the Federal Reserve System has no right to try to curb speculation through drastic increases of discount rates; that all that has been required of it at any time has been that it should keep its own funds, the reserves of the deposit banks, out of the speculative market.

191 - 113.

On May 23, 1929, the Manchester Guardian Commercial expressed the belief that increased discount rates would not curb speculation.

192 - 147 (2).

On May 25, 1929, the London Statist stated that the banking authorities in the United States apparently want a business depression to curb speculation.

192 - 147.

The writer believes that the speculators would have heaved a sigh of relief at an increase in the discount rate to 6%, in the hope that then the direct pressure, so embarrassing to their movements, would be removed, and that they would be enabled to obtain all the money they desired under the 6% Federal reserve rate. To these speculators a 6% rate, the writer believes, would have been "easy money" as compared with the 5% rate and its stringent direct pressure.

The Board acted on the above theory with the object of cutting off, by direct pressure, the seepage of Federal reserve funds into the securities market, as will be shown later. That the speculative mania, in spite of the Board's efforts, was fed from "loans for others" was a fact over which the Federal Reserve Board had no effective control.

It must not be forgotten that the Federal Reserve System in trying to curb speculation through discount rates, can act only by increasing discount rates on commercial paper; it can not discount paper secured by stock collateral.

Suppose the authorities of a town were to announce that they had determined to put an end to the loss of life by reckless automobile driving by incisive and rapid increases in the price of gasoline!

Or suppose a Father were to chastise his only son because an intoxicated man was carousing in the street!

The reply would certainly be made that nothing short of direct action against the automobiles or against the intoxicated man in the street would suffice to correct the evil!

The majority of the Board took the position that agriculture and business were entitled to lower rather than higher rates; that the rates paid by them had been materially increased already by diversion of funds into speculative channels, and that to impose upon agricultural and commercial paper further crushing blows in the shape of rapid increases of discount rates would be a serious injury to them and a fruitless method of attempting to curb speculative loans, and especially the bank loans "for others", - which had become the chief cause of the trouble.

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The Board having reached the conclusion that the 5% rate should be kept stable for the protection of business, and that seepage of Federal reserve credit into speculative channels should be prevented by other means, on February 7, 1929 issued a public statement which came to be known as the Board's "warning" and action taken under it as "direct action".

This warning and the use of direct pressure was by no means a new idea. It was discussed in the Board in October 1922 when Chairman Perrin of the Federal Reserve Bank of San Francisco explained how the

Federal Reserve Banks of Cleveland and San Francisco during the war period had successfully employed it, keeping the discount rate stable at 6% while the Federal Reserve Bank of New York had a 7% rate.
194 - 97.

It was used also by the Federal Reserve Bank of New York in October, 1925 but in a different manner, as will later be shown, from that now advocated by the Federal Reserve Board.
194 - 97 (2).

The Federal Reserve Bank of Philadelphia used it also in 1925.
194 - 97 (2).

Dr. Miller pointed out the danger from the seepage of Federal reserve credit into speculative channels in an address at Boston in November, 1925.
194 - 103.

On July 27, 1927, the Governors Conference recommended direct action to prevent speculative excess following the rate reduction to 3½%.
14 Diary 16, 17 (59).

The danger was frequently pointed out by the Board in its Annual Reports from 1925 to 1928, and in the Federal Reserve Bulletins.
194 - 103.

The necessity for its present use was emphasized by the fact that, early in 1928, certain New York member banks had borrowed from the Federal Reserve Bank, on their collateral notes, many millions of dollars which they loaned on the stock exchange with great profit to themselves.
194 - 97 (3).

On November 22, 1928, the Federal Advisory Council recommended it to prevent seepage of Federal reserve credit into the call loan market.
186 - 21

On February 14, 1929, the Federal Advisory Council advised its extension to loans of member banks to their customers.

188 - 60, 67, 70, 78.

It is true that on April 5, 1929, and again on May 21, 1929, the Federal Advisory Council reversed its recommendation of February 14, 1929, and advised an increase of discount rates to 6% as asked for by New York, on the ground that direct pressure had not succeeded in curbing speculative loans.

16 Diary 15 (58).
16 Diary 25 (91).

As a fact, however, on May 31, 1929, just ten days after this last recommendation of the Federal Advisory Council, Chairman McGarrah advised the Federal Reserve Board that the New York directors wished to consider a program for easing money conditions and encouraging banks to borrow! 195 - 85.

If the Federal Advisory Council had delayed its recommendation for a 6% rate for ten days, it in all human probability would never have made it!

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The Board, in its public warning of February 7, 1929, pointed out that during the year 1928 the System had encountered interference because of the absorption of Federal reserve credit in speculative security loans; that the volume of speculative credit was still growing and that this effect, coupled with gold exports, had brought about an advance of from 1% to 1½% in the cost of commercial credit; that it became the duty of the Board to inquire into these conditions and to take suitable measures to correct them, which in the immediate situation meant to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit.

The reference in this warning to the Board's letter of February 2, 1929, to the Federal reserve banks, led many to believe, including the Federal Reserve Bank of New York (16 Diary 93 (72)), - that the Board's warning meant that as a matter of law, under the Federal Reserve Act, no member bank at any time could lawfully rediscount eligible paper in order to replenish its reserves to sustain deposits arising out of speculative loans.

The writer believes no such ruling of law was intended but merely a rule of sound banking practice under the rabid speculation then rampant. This would seem to be clear from the following quotation from the warning:

> "....which, in the immediate situation, means to restrain the use, directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit." (Italics mine)

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We can now consider the effect of direct pressure, which lasted, as above pointed out, from February 7, 1929, to about June 9, 1929.

To understand its effect it will be advisable to consider the periods just before it went into effect, and the later periods ending with the stock market collapse of October, 1929.

These periods may be divided as follows:

1. January, 1928 to January, 1929.

2. February, 1928 to February, 1929.

3. February 9, 1929, to June 8, 1929. (This is the period of direct pressure.)

4. June 8, 1929 to August 9, 1929.

5. August, 1929 to October, 1929.
This includes the increase in discount rates to 6%, approved August 9, 1929.

FEDERAL RESERVE SYSTEM

The Federal Reserve figures are weekly averages.
The Member bank figures are for weekly statement dates.

F.R. credit	Discounts	Acceptances	U.S. securities	Mem. bk. reserves	Sec. loans	Comm. loans	Investments	Gold Imports	Gold Exports	Curr. in circulation
1. January, 1928 - January, 1929.										
+239	+503	+104	-364	-37	+796	+333	-24		251	-19
2. February, 1928 - February, 1929.										
+245	+391	+42	-208	-12	+924	+82	-45		246	-33
3. Direct Action. February 9, 1929 - June 8, 1929.										
-193	+140	-300	- 44	- 68	-361	+444	-262	173		+29
4. June 8, 1929. - August 10, 1929.										
+ 62	+ 81	- 24	+ 5	+ 31	+518	+189	-242	42		+65
5. August, 1929. - October, 1929.										
+ 41	-186	+234	- 20	+ 10	- 28	+253	-134	31		+53

(From figures furnished by Dr. Goldenweiser)

199 - 57.

Let us now comment on these periods and examine the course of Federal reserve credit for the Federal Reserve System.

Period 1. January 1928 to January 1929.

Federal reserve credit outstanding increased 239 millions caused largely by gold exports of 250 millions net. During this period security loans increased 796 millions of dollars, in spite of the gold exports and the decline of 19 millions in money in circulation.

Period 2. February, 1928 to February, 1929.

Federal reserve credit increased 245 millions largely through gold exports, while security loans increased 924 millions.

Period 3. February 9, 1929 to June 8, 1929.

This was the period of direct action, also of a series of increases in buying rates on acceptances at the Federal Reserve Bank of New York, and of increases in discount rates by four Western Federal reserve banks to bring them into line with the 5% rate at the other banks. During this period there was a falling-off of $300,000,000 in the acceptance holdings of Federal reserve banks and of $44,000,000 in holdings of United States securities, while discounts of member banks increased $144,000,000, so that total reserve bank credit outstanding declined by $193,000,000. This decrease in reserve bank credit, despite an increase of $29,000,000 in the amount of money in circulation, accompanied an importation of $173,000,000 of gold and a decline of $68,000,000 in member bank reserve balances. During this period there was a reduction of $361,000,000 in security loans and of $262,000,000 in investments of reporting member banks accompanied by an increase of $444,000,000 in all other, largely commercial, loans.

During this period, however, loans "for others" increased 313 millions.

It may be contended that these decreases in reserve bank credit were brought about more largely by the decrease in acceptance holdings of 300 millions which more than offset the increase in gold imports of 173 millions.

It should be remembered, however, that the shutting off of the flow of acceptances by increased purchasing rates had been in effect before direct pressure was put in effect by the Federal Reserve Board.

On January 4, 1929, the Federal Reserve Bank of New York increased its buying rates on acceptances from $4\frac{1}{2}\%$ to $4\frac{3}{4}\%$ without even asking authority from the Federal Reserve Board, and on January 21st it increased these rates to 5%.

This action in shutting off the flow of acceptances threw a greatly increased strain for rediscounts on the Federal reserve banks.

The Federal Reserve Board, by direct pressure, headed off this increased demand for rediscounts and kept it down to 140 millions, notwithstanding a 344 million decline in the System's holdings of acceptances and Government securities.

Had it not been for the direct pressure, it is fair to assume that under the rampant speculative mania, the member banks would have rediscounted very much more than this increase of 140 millions, and that the gold imports of 173 millions would have also served in material degree to support further expansion.

It should be remembered also that while member bank reserves decreased 68 millions, commercial loans increased 444 millions against an increase of only 82 millions in the preceding period.

Period 4. June 8, 1929 to August 9, 1929.

> Early in June the application of direct action was suspended, largely because it was felt that the heavy credit and currency requirements around the end of the fiscal year should be met by the banks without hesitation and without a feeling that they were going contrary to Federal reserve

policy. That the System had decided upon a policy of relative ease became generally known, and this led to a revival of speculative activity. Between June 5 and August 7 there was a growth of $518,000,000 in security loans of reporting member banks, and of $736,000,000 in brokers' loans. Security prices advanced about 14 per cent. The growth in Federal reserve bank credit, however, during the period was limited to $62,000,000, owing in part to the fact that there was an inflow of $42,000,000 of gold from abroad. A part of this increase in reserve funds was incident to the issuance of the new-size currency, money in circulation increasing by $65,000,000 during the period. Member bank reserve balances also showed a growth of $31,000,000.

Period 5. August 10, 1929, to October 12, 1929.

On August 9 the discount rate at the Federal Reserve Bank of New York was increased from 5 to 6 per cent and at the same time the buying rate on acceptances was reduced from 5-1/4 to 5-1/8 per cent. This resulted in a reversal of earlier conditions by making it cheaper for the banks to obtain reserve bank credit by the sale of acceptances rather than by the discount of eligible paper. By the second week in October borrowings of the Federal reserve banks had declined $186,000,000, while acceptance holdings of the Federal reserve banks had increased $234,000,000, the net change in Federal reserve bank credit outstanding being an increase of $41,000,000. The decline in member bank indebtedness resulted in a distinct easing of conditions in the money market. Security loans of member banks declined somewhat during this period, but there was a very rapid increase in speculative activity and in brokers' loans, supplied mostly by non-banking lenders.

A similar comparison for the Federal Reserve Bank of New York follows:

(In millions of dollars)

Federal reserve figures are weekly averages. Member bank figures are for weekly statement dates.

F. R. bank credit	Bills discounted	Acceptances	U. S. securities	Member bank reserve balances	Reporting member banks in New York City		
					Security loans	Commercial loans	Investments
Period 1, January 7, 1928 to January 5, 1929.							
+ 226	+ 243	+ 64	- 80	- 23	+ 344	+ 90	+ 37
Period 2. February 11, 1928 to February 9, 1929.							
+ 39	+ 78	+ 10	- 51	+ 2	+ 320	+ 16	+ 21
Period 3. Direct Action, February 9, 1929 to June 8, 1929.							
- 78	+ 1	- 89	+ 2	- 7	- 179	+ 267	- 78
Period 4. June 8, 1929 to August 10, 1929.							
+ 198	+ 168	+ 19	+ 12	- 9	+ 283	+ 82	- 90
Period 5. August 10, 1929 to October 12, 1929.							
- 161	- 216	+ 60	- 19	+ 15	- 125	+ 108	- 29

An inspection of the above tables satisfies the writer that the direct pressure imposed during the 3rd period was successful in preventing the seepage of Federal reserve credit into speculative channels.

This is borne out by the fact that on May 22, 1929, Chairman McGarrah and Governor Harrison told the Board that direct pressure had made the banks afraid to borrow at all and that they wanted to encourage the banks to borrow to meet the necessary demand soon to come for commercial needs.

16 Diary 75, 76, 77 (179).

The Manchester Guardian, on May 25, 1929, stated that direct action had reduced Federal reserve credit used for speculation, but not the amount of credit absorbed in speculative loans, the latter evidently referring to loans "for others".

192 - 147 (2).

It would appear also that even in the two succeeding periods ending in the collapse of October, 1929, the cause of the rampant speculative activity was largely attributable to the flow of funds into the call loan market from corporations using the banks to place their loans.

The following table will bring this out graphically:

Brokers' Loans

Reporting Member Banks, New York City.

	Own Account and Out of Town Banks	"For Others"	Total
1929			
February 5	3048	2621	5669
June 5	2350	2934	5284
August 14	2775	3178	5952
October 9	2772	3941	6713

Comparing February 5 with October 9, we find that the loans by New York banks for their own account and that of out of town banks declined 270 millions, while the New York banks loans "for others" increased 1320 millions.

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While during the period of direct pressure there was a very satisfactory decrease in total speculative (including brokers) loans, yet the security loans to customers as distinct from brokers did not decrease, but on the contrary increased, as the following table will show:

All Weekly Reporting Member Banks.

Loans on Securities.

	To Brokers and Dealers		To Customers
	In New York City	Outside of New York City	
1929			
February 6	1771	816	4971
June 5	1122	808	5267
	-649	- 8	+296

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Out of this increase in customers loans, there arose another difference between the Federal Reserve Board and the Federal Reserve Bank of New York, - wholly apart from the difference as to discount rates.

16 Diary p. 1.

On May 1, 1929, the Federal Reserve Board wrote Chairman McGarrah enclosing a list of certain banks in New York City which had been frequent or continuous borrowers and which were still carrying a considerable volume of security loans, and asked him to inquire of these banks why they had not adjusted their position.

195 - 67 (5).

On May 10, Mr. McGarrah replied stating that the Board was laying down a new test of abuse of Federal reserve credit by this letter; that the Federal reserve bank can not determine whether member banks security loans to customers are speculative or not; that the Federal reserve bank has no lawful right to refuse to discount eligible paper on the ground that the proceeds are to be used to sustain such security loans; that such refusal would be a rationing of credit and bring about a condition the Federal reserve bank could not afford to risk, and in conclusion he reiterated his belief that such loans could be treated only through the use of the discount rate.

195 - 63.

Governor Harrison had previously, on February 6, 1929, taken the same position.

15 Diary 158 (115).

This position of the Federal Reserve Bank of New York was not in accord with the recommendation of the Federal Advisory Council on February 15, 1929, as shown above.

Nor does it accord with the position taken by Mr. George M. Reynolds, a prominent banker of Chicago, who, in a letter to Governor McDougal dated March 2, 1929, said:

> "I shall insist upon our people doing more than trying to sit on the lid to prevent further expansion, because I am now of the opinion that nothing short of a vigorous effort forcing liquidation of many large lines of credit will accomplish our purpose.....
>
> "The people seem to have lost their heads over stock gambling, and the time has come when those who are in responible positions will have to take the bull by the horns and force them to do something which they will not like. With sales of over six million shares of stock yesterday, it is clearly shown that the public has not profited by the advice of the Federal Reserve Board, and I think we have now reached the point where it is a matter for each individual bank to get into the game vigorously and do whatever is necessary to at least force a reduction in the amount of money that is borrowed against stock exchange collateral."

As opposed to the above views of the Federal Advisory Council and Mr. Reynolds, the Federal Reserve Bank of New York from the first took the position not only that direct pressure should be strictly confined to banks which were borrowing more than the mass of banks of their general class, but also that customers loans could not be considered by Federal reserve banks in passing upon applications for rediscounts.

On February 5, 1929, Governor Harrison squarely made such a statement.

15 Diary 154 (114).

On February 21, 1929, Chairman McGarrah repeated the statement.
195 - 67.

On May 29, 1929, both Governor Harrison and Chairman McGarrah took the position that direct pressure should not be used to curb customers speculative loans.

16 Diary 76 (53).

On June 5, 1929, Governor Harrison repeated the statement, correcting Mr. Mitchell, one of his directors, who went further in his view of the power of the Federal reserve bank.

16 Diary 101, 102 (155).

It is unnecessary to state that the Board never advised the direct refusal of rediscounts to any bank, although it clearly is within the power of the Federal reserve bank to do so, as our General Counsel, Mr. Wyatt, and Hon. Newton Baker, our Special Counsel, have advised the Board. What the Board intended was to have the Federal reserve bank examine into the security loans being made by a member bank which is a frequent or continuous borrower from the Federal reserve bank, and if it considered such loans out of line with its commercial loans or excessive generally under present conditions, to warn the bank that it must protect the interests of its depositors and of the public by exercising a more reasonable use of Federal reserve credit obtained by rediscounting.

The majority of the Board believed that a mere suggestion along these lines would, in the vast majority of cases, be sufficient without the necessity of the Federal reserve bank using its reserved power of refusing rediscounts altogether.

The position of the Federal Reserve Bank of New York in the matter is in accord with the feeling of many bankers that a good customer, keeping a good balance, is entitled to all the money he may desire if he is willing to pay the discount rate fixed by the bank, and that the use of the discount rate is the only method of curbing the good customers desire for money.

In ordinary times the above rule of practice might pass without criticism, but in extraordinary times of speculative mania it must be pointed out that the rule is not consistent with sound Federal reserve banking principles.

The reply is constantly made that if a bank refused a loan under such circumstances the customer will withdraw his account and get the money he desires from some competing bank not so solicitous for the interest of its depositors or of the public.

This may be true in individual cases but could be guarded against by agreement among the principal banks of the city, or of the country, to join in curbing wild speculation, and then the customer would find that all the competing banks are following the same rule and that he can gain nothing by withdrawing his account.

Such a conference was repeatedly urged upon the officers of the Federal Reserve Bank of New York by the writer.

The suggestion was later approved by Mr. Potter, of the Guaranty Trust Company of New York, but so far as the writer knows, was never carried out. Feb. 14, 1929. 15 Diary 172 (97).

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An interesting light was thrown on the responsibility of bankers in times of speculative manias, by Governor Young, in an address delivered at Old Point Comfort, Va., on May 7, 1930, in which the Governor said:

> "We bankers have a responsibility beyond our own balance sheets for the general course of events."
>
> "We must look beyond the safety of the collateral offered us for a loan to the safety of the aggregate volume of collateral that we know is being offered for loans at all the banks."
>
> "When we see an unhealthy development getting under way we must not only protect our own immediate institution, but must take a broader view with reference to the interests of the entire community."
>
> "In other countries, where banking development has been longer, and banking concentration has proceeded farther, certain methods of control have been developed."
>
> "A customer in England is not granted unlimited credit on the basis of security offered as collateral; he is granted a line of credit in accordance with his credit standing and the requirements of his business, and he can not easily exceed that line no matter how much collateral he may be able to offer."
>
> "I am not prepared to recommend to you this or any other specific course of action, but I do feel justified in calling your attention to our joint responsibilities and to suggest that what we need is cooperative action in the development of sound banking traditions, which alone will give assurance to the country of a lasting stability of its financial organization."

"To such cooperation I pledge my wholehearted support."

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The writer believes that the action of the Federal Reserve Board in requesting the Federal reserve banks during this period of mad speculation to take up with member banks applying for rediscounts the matter of their customers speculative security loans, is not only in accordance with law, but also is in accord with the principles of sound banking, and that if this inquiry had been more generally made, conditions might not have been as bad in the Fall of 1929 as they in fact were.

Although Chairman McGarrah and Governor Harrison characterized such a procedure as "credit rationing" likely to result in appalling consequences, the writer believes that sufficient evidence has already been disclosed of the appalling consequences of lack of such inquiry as would warrant the conclusion that such inquiry, whether characterized as credit rationing or by some other name, would have been for the greatest good of the greatest number of our people.

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Before closing this article it may be well to consider the attitude of bankers, economists, and the press, towards the Board's warning and the operations conducted under it from time to time as it progressed.

The following are among those who expressed approval:.

American Bankers Association	April 29, 1929. 193 - 67 (3).
Anderson, B. M.	Feb. 13, 1929. 188 - 48. Mar. 22, 1929. 190 - 69.

The following are among those who expressed approval (Cont'd.)

Ayres, Leonard	Feb. 16, 1929.	188 - 68.
Becker and Co.	Feb. 13, 1929.	188 - 51 (2).
Bendell, E. C.	Feb. 13, 1929.	188 - 51 (2).
Boston Transcript Financial column	Feb. 7, 1929.	187 - 125.
	April 5, 1929.	190 - 50.
	May 16,	191 - 144.
	May 23,	192 - 34.
	June 28,	193 - 65, 70.

On May 23, it stated that direct pressure had proved as effective as discount rate increases.

Brookmeyer Economic Service
July 9, 1929. 193 - 120.

Dulles, John Foster — April 30, 1929, 191 - 20.

Equitable Trust Co. Mr. Austin
Dec. 13, 1929. 199 - 25.

Lawrence, David
Direct pressure has succeeded and Federal Reserve Board will now suspend it.
June 3, 1929. 192 - 92.

Explains warning.
June 5, 1929. 192 - 102.

Lisman Digest
Points out that low discount rates do not necessarily mean easily available money.
July, 1930. 205 - 65.

London Economist
The events of the past year have seen the beginnings of a new technique, which, if maintained and developed, may succeed in rationing the speculator without injuring the trader.
May 11, 1929. 193 - 77.

New Republic — Feb. 20, 1929. 188 - 112.
April 9, 1929. 190 - 63.

The following are among those who expressed approval (Cont'd.)

New York Post	Feb. 8, 1929. 188 - 5.
New York Herald-Tribune	Feb. 8, 1929. 187 - 134. 188 - 5 (2).
New York Telegram	Nov. 25, 1929. 198 - 88.
New York Times	Feb. 8, 1929. 187 - 152. Feb. 11, 1929. 188 - 10 Financial column. Mar. 20, 1929. 189 - 88. Mar. 28, 1929. 189 - 142. Apr. 6, 1929. 190 - 48. May 20, 1929. 192 - 12 Financial column. Sept. 13, 1929. The 6% rate has failed to direct funds from the stock market. The Board may have to resume direct pressure. 195 - 118.

See also infra - Criticisms

New York World	Feb. 7, 1929. 187 - 118, 129, 130. Feb. 8, 1929. 188 - 5 (5). Feb. 9, 1929. 188 - 1. Apr. 13, 1929: Publishes interviews mostly approving. 190 - 80. May 23, 1929: The Board hesitates to penalize business but seeks to check diversion of credit into speculative channels. 192 - 36. May 26, 1929: People who once attacked the Board for its tight money policy, now attack it for its disapproval of increased discount rates. 192 - 70. July 31, 1929. 194 - 14. Aug. 12, 1929. 194 - 98. Nov. 19, 1929. 198 - 56.

See also - Criticisms

Newark News	Nov. 24, 1929. 198 - 46.

Philadelphia Evening Bulletin

A great victory for the Federal Reserve Board.

June 7, 1929. 192 - 122.

The following are among those who expressed approval (Cont'd.)

Rogers, Will
Suggests that the people may discover that the Federal Reserve Board may be working in the interest of the millions.
May 24, 1929. 192 - 34.

Rukeyser (New York American)
Feb. 11, 1929. 188 - 37 (2).
Oct. 7, 1929:
Board has mitigated violence of trade cycle.
196 - 100.
July 31, 1930:
Praises Gov. Young's address at Old Point Comfort, Va., pointing out to member banks their duty and responsibility for controlling speculative loans.
206 - 30.

Sprague, F. K.
Approves but dilatory.
Feb. 13, 1929. 188 - 51 (2).

Stern — Feb. 18, 1929. 188 - 87.

Temple, A. H. — Mar. 27, 1929. 190 - 69.
Apr. 24, 1929. 190 - 27.

Trust Companies — Feb. 1929. 189 - 89.

United States Chamber of Commerce
May 4, 1929. 191 - 39, 91.

Vanderpoel — May 16, 1929. 191 - 150.

Walmseley — April 7, 1929. 190 - 52.

Washington Post — Feb. 9, 1929. 188 - 4.
April 6, 1929. 190 - 47.

Washington Star — Feb. 16, 1929. 188 - 76.

Whaley-Eaton Service — Mar. 26, 1929. 189 - 130.
Successful in most districts but not in all.
June 29, 1929. 193 - 10 (3).

Wheeler, H. A. — April 2, 1929. 190 - 31.

There follow some critical comments or articles which appeared from time to time:-

Ayres, Leonard
Board defeated in its struggle to control the credit situation.
July 16, 1929. 193 - 145.

Boston Herald
Board failed.
Aug. 10, 1929. 194 - 65.

Boston News Bureau
Adverse comment.
April 6, 1929. 190 - 56.

Commons, Prof.
Federal Reserve Board may have gone after the stock market too hard.
Feb. 14, 1929. 188 - 57.

Durant, W. C.
Attacks Federal Reserve Board.
Feb. 28, 1929. 189 - 4.
Apr. 2, 1929. 190 - 30.
Aug. 10, 1929. 194 - 68.

Harvard Economic Service
Predicts the warning will fail unless coupled with higher discount rates, which, however, it admits will injure business.
Feb. 19, 1929. 188 - 105.

Lawrence, David
Uncertainty of Board's policy criticised by many.
June 11, 1929. 192 - 141.

London Times
Adverse comment. May 25, 1929. 192 - 147.
Savors of politics.

Manchester Guardian Commercial
Adverse comment. Mar. 28, 1929. 193 - 67.

New York Herald-Tribune
The 6% rate substituted for vacillation, threats, and cajollery.
Aug. 9, 1929. 194 - 90.

Critical articles which appeared from time to time (Cont'd.)

New York Herald-Tribune (Cont'd.)
Defense by Federal Reserve Board in its Annual Report for 1929 agreed to by few.
April 24, 1930. 202 - 130.

Gov. Young not responsible for direct pressure.
Aug. 28, 1930. 206 - 88.

New York Journal of Commerce
Adverse criticism Feb. 8, 1929. 187 - 140.
Feb. 9, 1929. 188 - 3, 5.
Apr. 6, 1929. 190 - 44.

See - Willis, H. P.

Board guided by political fears.
May 24, 1929. 192 - 45.
May 25, 1929. 192 - 147.

By approving 6% rate the Board has changed its policy.
Aug. 5, 1929. 194 - 30.

The Board's defense of direct action puts it in a ridiculous position.
April 28, 1929. 202 - 140.

The Board's credit control in 1929 was a mockery.
Aug. 29, 1930. 206 - 90.

New York Post
The pre-panic action of the Board was ineffective because of the Board's personnel.
Sept. 5, 1930. 206 - 114.

New York Sun
Charges politics. Feb. 14, 1929. 188 - 87.

Criticises. Aug. 29, 1929. 195 - 19.

Board tried to shut off credit altogether. The Federal Reserve Bank of New York saved the country from panic.
April 24, 1930. 202 - 130.

The Board has learned from experience the importance of following sound banking principle and the need of respecting the decisions of the regional banks.
Sept. 2, 1930. 206 - 104.

Critical articles which appeared from time to time (Cont'd.)

See - Schneider, F.

New York Times

Criticises Board for not following advice of Federal Advisory Council to approve increase to 6%.
May 23, 1929. 192 - 31.

Criticises Board's reluctance to penalize business, which, it says, has already been penalized.
June 6, 1929. 192 - 110.

Financial column says that Board's approval of the 6% rate represents a change of policy.
Aug. 12, 1929. 192 - 110.

A matter of dispute how far Board fell short of the needs of the occasion. Purpose and action to safeguard the credit structure was correct.

Board did not act with sufficient promptness or decisiveness.

Allowed internal division to betray itself.

Relied on persuasion or reasoning when past experience indicated that the time had passed for anything but peremptory action or, at least, definite warning which could not be misunderstood.

Lack of effective leadership.
Sept. 6, 1930. 206 - 110.

New York World.

Right but tardy. Feb. 8, 1929. 188 - 5.

Delayed firming policy too long.
Board has lost control of money market.
April 3, 1929. 190 - 32.

Right, but not determined enough.
April 15, 1929. 190 - 72.

Prestige of Board injured by its vacillating course.
Aug. 12, 1929. 194 - 98.

Richmond Press

Criticizes. 187 - 151.

Critical articles which appeared from time to time (Cont'd.)

Rukeyser (New York American)
Has proved fruitless.
Feb. 11, 1929. 188 - 37 (2).

Schneider, F. Jr. (New York Sun)
In July, 1929, Mr. Schneider, after praising the easy money policy of the System in 1927, criticized severely the firming policy of 1928 and 1929, stating that the extent of the security speculation had been exaggerated, and that the System should not be unduly distracted by emotional reactions raised by the stock market and brokers loans controversies.
194 - 73.

On December 31, 1929, Mr. Schneider took the position that the Federal Reserve Bank of New York was right, and the Federal Reserve Board wrong in the discount controversy. He evidently assumed that the issue was between a 5 or a 6% discount rate, for in the article above mentioned he specifically condemned any attempt to break the stock market by rapid increases in discount rates, not knowing evidently that that was the then policy of the Federal Reserve Bank of New York.
199 - 70.

Seligman, Prof.
Holds Board partly responsible for the crash of October, 1929, because of refusal to approve increase of discount rates.
Nov. 26, 1929. 198 - 96.

Shiveley, E. A.
Criticizes. Feb. 8, 1929. 188 - 51 (2).

Simmons, E. W. W.
Criticizes
Address. Chicago Stock Exchange.
May 14, 1929. 191 - 112.

Sprague, F. K.
Dilatory. Feb. 13, 1929. 188 - 51 (2).

Rates should have been increased long ago.
Mar. 12, 1929. 189 - 79.

Critical articles which appeared from time to time (Cont'd.)

Sprague, Prof. O. M. W.
Warning had but little effect.
May, 1929. 193 - 31.

Stern
Board has failed. Feb. 28, 1929. 189 - 6.
Mar. 1, 1929. 189 - 19.

Stokes, E. C.
Attacks. Mar. 23, 1929. 189 - 104.
June 18, 1929. 193 - 32.

Sullivan, Mark
Washington believes Board has not succeeded.
Aug. 16, 1929. 194 - 102.

Truth
Criticises. April 17, 1929. 193 - 41.

Wall Street Journal
Criticises. May 8, 1929. 191 - 58.
Aug. 29, 1930. 206 - 90.

Williams, Langbourne
Attacks April, 1929. 190 - 28.
May 10, 1929. 191 - 118

Willis, H. P.
Criticises
North American Review
April, 1929. 190 - 107
192 - 49.

Withers, Hartley
Mr. Withers believes that discount rates should have been increased and quotes from Mr. Burgess's book to the effect that the Federal Reserve System deals with credit quantitatively and not qualitatively; that its influence is upon the total amount of credit in use, not in its employment, and that it can not restrict loans on the Stock Exchange.

Let us examine the above quotation from Mr. Burgess's book. Is it true that the Federal Reserve System's power over discounts is <u>quantitative</u> only and not <u>qualitative</u>? Is it further true that the quantitative power can be exercised only through changes in discount rates?

In one sense, certainly, the Federal Reserve System is the most qualitative system in the world, for the reason that until at least the amendment of 1917, the Federal reserve banks could discount only a certain quality of paper, - that is, self-liquidating agricultural and commercial paper.

So also the amendment of 1917 was a qualitative amendment for it permitted advances to member banks on their notes collateraled by Government bonds.

Mr. Burgess, in his book, however, must mean that once the paper offered has passed the qualitative test, the Federal Reserve System can only control the amount, and that only through changes in the discount rate, no matter to what uses the bank may apply the proceeds of the rediscount.

If this position is correct, it must follow that in a time of rampant speculation, whether in commodities, real estate, or securities, the Federal reserve bank can exercise no control in the public interest except through changes in the discount rate, and that a bank offering eligible paper has an absolute right to discount it, regardless of the amount or of the use which it expects to make of the proceeds, providing it is willing to pay the official discount rate.

To take such a position, however, is to ignore the Federal Reserve Act, which states that a Federal reserve bank may discount, and not that it shall discount.

It is clear that a Federal reserve bank in its discretion may decline to discount altogether.

Such a position, moreover, would be at variance with the practice of the Federal Reserve Bank of New York which has always claimed and exercised the right of inquiry into the loan practices of banks borrowing more than other banks of their class, and of warning them that a continuation of such practice may result in a refusal to rediscount their paper. (See letter of Chairman McGarrah to the Board dated February 21, 1929. 195 - 67.)

While the Federal reserve bank, to be sure, exercises here a quantitative power, it is certainly based on qualitative considerations. The bank is directed to reduce the amount of its borrowings, and in order to do this, it may determine the particular means by which this reduction is brought about, whether by reduction of investments, or security or other loans.

Can it be, however, that when all banks of a given class are engaged in feeding the speculative movement to the injury of agriculture and business, the Federal reserve bank has no power to examine into their loan practices and direct a reduction of their borrowings?

If the answer is in the negative, it will place the Federal reserve banks in a position of impotence never intended by the framers of the Federal Reserve Act.

Let us suppose that a town were to erect a reservoir to hold water for irrigation purposes, with a right granted by the legislature to sell the water at its discretion and to fix the price. Let us further suppose that the owners of farms taking this water were diverting it for wasteful purposes other than irrigation.

Let us further suppose that the town has notified these owners that this practice must be stopped, and that the reply was made that in the case of one owner diverting more water for such wasteful purposes than the general class of owners, the town would have power as regards that one owner, but in a case where all the owners are improperly diverting the water, the town would be powerless. Certainly scant attention would be given to such a claim, and similarly scant consideration should be given to a similar claim of impotence in the Federal reserve banks.

It would not be necessary for the Federal reserve banks to pick out any particular speculative loan and order it to be liquidated. The Federal reserve bank could simply warn the bank that the amount of its borrowing was excessive because of its loan practices, leaving to the bank the task of adjusting its position.

Although this power of the Federal reserve bank primarily is a <u>quantitative</u> power, yet the decision may be based largely on <u>qualitative</u> considerations, and this would seem to be clearly within the power of the Federal Reserve System.

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The gist of the above criticisms seems to be that the Board persisted in its policy of direct pressure not only from February 7, 1929, to June, 1929, but farther until August 9, 1929, when it reversed itself and approved a 6% discount rate asked for by the Federal Reserve Bank of New York; that this reversal of policy was reached only after long delay and indecision; and finally that the failure to approve the increased rates asked for by the Federal Reserve Bank of New York earlier, places upon the Board some responsibility, at least, for the market crash of October, 1929.

The answer to these criticisms has already been pointed out but can be repeated:

1. The direct pressure policy was suspended early in June, 1929, when the Board and the Federal Reserve Bank of New York agreed that because of changes in the business and credit situation the problem had been changed into one providing for an <u>increase</u> of Federal reserve credit, and increased borrowings by the banks.

This change of policy was not publicly announced either by the Board or by the Federal Reserve Bank of New York for fear of its effect on the stock market. It did, however, leak out and was mentioned by Mr. David Lawrence in an article published on June 3, 1929. From what source Mr. Lawrence derived this information, the writer has no knowledge.

2. The increase in discount rates to 6% approved by the Board on August 9, 1929, had nothing to do with the Board's policy of direct pressure, which, as above stated, had been suspended early in June.

On the contrary, this increase, as explained by Governor Harrison, and pointed out earlier in this article, was merely a "barrage", to use

Governor Harrison's exact language, in connection with a program for easing money conditions.

3. So far from being timid and vacillating in its policy of direct action, the Board on February 7, 1929, acted decisively and boldly and kept direct action in force until the object sought by it, - prevention of diversion of Federal reserve credit into speculative channels, - had been accomplished, Federal reserve credit outstanding having been reduced under direct pressure, about 193 millions of dollars.

4. So successful was this policy that, as before pointed out, Governor Harrison and Chairman McGarrah informed the Board on May 22, 1929, that under the influence of direct pressure the member banks were afraid to increase their borrowings and that it had become necessary to encourage them to borrow from the Federal reserve banks to supply the growing demand for commercial credits!

16 Diary 76 (69).

5. The further charge of responsibility for the crash in the stock market in October, 1929, because of refusal to approve increases in discount rates asked for by the Federal Reserve Bank between February 14 and May 23, 1929, seems to me, as hereinafter stated, tantamount to a statement that the stock market crash which came in October could have been <u>averted</u> by an incisive discount rate policy in April or May, which, however, would have <u>produced</u> the crash at that earlier period.

Looking back to the period between February 4 and May 23, 1929, the Board had before it the demonstrated fact that its policy of direct action had kept Federal reserve credit away from the speculative market; that commercial loans were increasing, while security loans were decreasing.

It also had before it the report of the Committee on recent economic changes which was generally interpreted as a "bullish" report. It stated generally that there was nothing much to worry about, and that in attacking the problems before the Committee the degree of progress in recent years inspired it with high hope.

Can it be contended that under such conditions a public Board would deliberately have attempted to smash the stock market by cataclysmic increases of rates on commercial paper?

I do not believe any public board in the United States, whether composed of bankers or economists would, under these circumstances, whatever its courage and wisdom, have made such an attempt.

Mr. Edie has pointed out in an address before the Academy of Political Science January, 1930, that the ordinary law of supply and demand does not apply in time of rampant speculation; that in such times higher prices do not check demand but act as an alcoholic stimulant to further extremes of demand.

The writer believes this is as true of money or credit as of commodities, and that increase in discount rates during such periods loses its force as a regulator of demand for money; that the only way to regulate demand in such cases would be such incisive and extreme advances in discount rates that money or credit would practically cease to be obtainable at any price.

Mr. Edie admits that a gradual slow process of increasing rates would have a stunting effect on business, but that a sharp and swift advance in rates would check false inflation in security markets without paralyzing business. This is tantamount to saying that if the Federal Reserve System, in May or June, had suddenly and incisively and repeatedly raised rates high enough to smash the stock market, business would not have been injured. We all know the effect on business of the crash in October. If the Federal Reserve System had deliberately brought about this crash in May or June, by startling increases in discount rates, there would seem to be little ground, in the writer's opinion, for belief that business would have taken it any differently in May or June than it did in fact in October.

-22-

Mr. Warburg, in his book entitled "The Federal Reserve System" gives a review of the discount rate controversy.

Vol. 1, pages 500 to 517.

He says that the Board's warning was bravely expressed in the beginning, but that it had only a temporary effect, as the Board became inarticulate; that the Board agreed to advance rates to 6% only in August, at least half a year, if not a year, too late; that the Board's attempt at loan contraction without adequate increase of discount rates, proved an impracticable and wasteful experiment.

Mr. Warburg states that loans "for other" are beyond the direct control of the Federal Reserve System, but states that he made a suggestion which would tend to bring down these loans, namely: The New York Clearing House Committee, acting under the auspices of the Federal Reserve System, could have sent for a stock exchange Committee, and have invited them to ask every stock exchange firm within a given time to reduce its borrowings, - whatever they might be, - by a given small percentage; that if this had been done, the top of the market would have been reached then and there, and liquidation gradually would have set in; that if the Federal Reserve System and the Clearing House banks had definitely agreed on such a plan, the stock exchanges would have been forced to fall into line, for no matter how large a volume of funds stock exchange firms were receiving from "others" they would have realized that, in the final analysis, they were depending upon the strength and good will of the New York banks.

Mr. Warburg says he definitely urged this in the first days of April, 1929, but that while everybody seemed to agree on its desirability and practicability, it proved impossible to carry it into effect; that the

Reserve System feared to expose itself to the charge of dealing, even indirectly, with the stock exchanges, and the clearing house banks were loath to undertake so unpopular a step, so long as Federal reserve discount rates were not increased to 6%. Mr. Warburg further states that with the Board unwilling at that time to permit the increase to which four months later it agreed, it is not surprising that the proposal fell through.

No such suggestion was ever made to the Federal Reserve Board, and it must have been made, if at all, to the Federal Reserve Bank of New York. Governor Harrison once referred to such a suggestion without revealing its source and he stated that he personally was opposed to it.
March 22, 1929. 15 Diary 199 (57).

Mr. Warburg criticizes the Board for its disinclination to injure business by increasing discount rates, and adds that with quick and determined increases, incisive enough to bring about liquidation, the period of high money rates would probably have been so brief that business might hardly have been affected by it.

Mr. Warburg concludes by this interesting statement:

> "This does not mean, however, that a Federal Reserve bank should not be free to act according to its own discretion if a member bank were to use Federal reserve credit excessively or too continuously, or in a manner harmful to the country's interest."

Mr. Warburg falls into the prevailing error by assuming that this controversy lasted from February 7th, the date of the issue of the warning, to August 9th, the date of the approval of the 6% discount rate. As above shown, from the early days of June to August 9, the problem before the Board and the New York Bank was how to induce the member banks to increase their borrowings, and not by means of discount rates to reduce these borrowings.

He further approves the position of the New York Bank that incisive, repeated increases of discount rates should be used to "correct the situation", that is, to liquidate radically the New York stock exchange loans. This, as before stated, is tantamount to saying that the stock market crash which came in October could have been averted by an incisive discount rate policy in April or May which would have produced the crash at that earlier period, - as pointed out above by the Manchester Guardian.

The Federal Reserve Board, however, felt that under direct pressure a gradual liquidation could have been secured without the necessity of the Board's going out of its way to smash the stock market. Such gradual liquidation took place during the period of direct pressure, but was interfered with by an increasing demand for commercial credit.

The writer believes that if the Federal Reserve Board had smashed the stock market by incisive discount rate increases, it would certainly have put an end to any increased demand for commercial credit, and that such action would have been an impetus to the slow decline even then apparent in commerce and business, terminating in the present business depression.

Mr. Warburg's statement that direct action was a wasteful experiment, would seem to be answered by the course of Federal reserve credit during the period when direct pressure was being applied. His suggestion of cooperation between the New York Stock Exchange and the Federal Reserve System was, as above stated, never presented to the Federal Reserve Board. Assuming, however, that he presented it to the Federal Reserve Bank of New York, and the reference, above quoted, to Governor Harrison's statement would seem to indicate that he may have, it is easy to see how the officials would have regarded it as credit rationing, to which, as above shown, they were absolutely opposed.

It should be remembered that Mr. Potter of the Guaranty Trust Company, and also the writer, suggested cooperation between the Federal reserve bank and the leading banks, with a view to exercising control over the speculative customers' loans of these banks. It is believed that such cooperation might have brought about the results Mr. Warburg hoped for from a conference between the System and the New York Stock Exchange. His final statement of approval of action by the Federal reserve bank in the case of banks using Federal reserve credit excessively or too continuously, or in a manner harmful to the country's interest, can only be accepted as an approval of the Board's position taken in its warning against frequent or continuous borrowing.

Hon. Russell Leffingwell, formerly Assistant Secretary of the Treasury, in a recent review of Mr. Warburg's book, criticises the Federal Reserve Board for attempting by direct action to make money dear for the speculator, and, at the same time, cheap for the business man. He repeats the statement in Mr. Burgess's book that the Federal Reserve System can control the amount but not the distribution of

Federal reserve credit. This statement I have already answered in this article.

Mr. Leffingwell further holds the Board responsible for the frenzied "bull" market in the first eight or nine months of 1929, and also for the stock market crash in October, 1929.

Here he falls into the prevailing error that the Board's controversy with the New York Bank lasted from February to August, while, as a matter of fact, as above shown, the Federal Reserve Board policy after June 1st was a common policy subscribed to both by the Federal Reserve Board and the Federal Reserve Bank of New York.

He states that direct action was a failure, but I feel that he has not critically examined the facts, and has not discovered that during the short period of from February 14 to June 1, in which direct action was in force, commercial loans greatly increased, while security loans greatly diminished, and Federal reserve credit was reduced about 193 millions of dollars.

He holds the Board responsible for the frenzied "bull" market during this period.

Direct action unquestionably did have a profound effect on the call loan market, but what would have been the effect on this market if the Board in February had entered upon a cataclysmic increase in discount rates which would have practically made it impossible to obtain money or credit at any rate, and which would have smashed the stock market? Mr. Leffingwell presumably would have favored smashing the stock market in February, 1924, as he is on record in this article as favoring the New York Bank's policy, but the effect on the call loan market of such an operation, as I have said, he fails to point out.

-23-

In conclusion, it may be asked whether the majority of the Board, in supporting a stable 5% rate with direct pressure, intended to lay down this as a permanent policy to the exclusion of increased discount rates hereafter to curb speculative activity.

To such an inquiry, an unqualifiedly negative answer must be given. The Board always has and always will feel free to use the discount rate to protect agriculture and commerce from injury from any speculative excess, either in the stock market or in the commodity or real estate market. For example, discount rates were increased to curb speculative activity in the early months of 1923, in the fall of 1924, in the beginning of 1925, in the autumn of 1925, in the summer and fall of 1926, in the fall of 1927, and in 1928.

189 - 127
191 - 63.

When, however, it appears, as in the concrete case, that a speculative orgy has set in, it may be necessary to revive direct action and pressure upon all speculative loans, with or without increases of discount rates, whether to brokers or customers, or both.

Direct action or pressure, in short, is a <u>means</u> and not an <u>end in itself</u>, to be used in connection with or independently of increased discount rates, as the best judgment of the Federal Reserve System shall determine.

B 25

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 15, 1930

To Mr. Hamlin

Subject:

From Mr. Smead

GPO 2—8495

As stated in my memorandum to you yesterday I tried to get a copy of the New York Herald Tribune for January 20, 1930, the issue in which Hartley Withers' article was commented upon. I did not succeed in getting a copy of the paper but I had the article in question copied from the paper on file in the Congressional Library. The full text of the articls appearing in the Tribune is attached hereto.

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Author(s):

Article Title: Schmitz Broadcast from Berlin

Journal Title: National Broadcasting Company, Inc.

Volume Number: Issue Number:

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 29, 1930

Sen Dr

To Mr. Hamlin

Subject:

From Mr. Van Fossen

2—8495

In accordance with your request of yesterday, we are giving below monthly averages of interest rates in New York City, average common stock prices and volume of transactions on the New York Stock Exchange in 1928 and 1929:

		Prevailing* rate on prime commercial loans	Average call loan renewal rate	Index of stock prices based on 1926 as 100**	Number of shares sold on New York Stock Exchange
1928	Disc. rates N.Y.				
January		4¼ - 4½	4.24	134	56,963,422
February	Feb. 3. 4%	4¼	4.38	132	47,165,193
March		4¼ - 4½	4.47	138	84,987,834
April		4¼ - 4¾	5.08	146	80,568,865
May	May 1 4½	4½ - 5	5.70	152	82,163,544
June		4¾ - 5	6.21	145	63,741,130
July	July 13. 5%	5 - 5½	6.05	144	39,001,098
August		5¼ - 5½	6.87	148	67,703,588
September		5½	7.26	156	90,906,718
October		5½	6.98	159	99,077,455
November		5¼ - 5½	6.67	171	115,433,835
December		5½	8.60	171	92,837,350
1929					
January		5½	7.05	185	110,803,940
February		5½	7.06	187	77,971,600
March		5½ - 5¾	9.10	189	105,634,570
April		5¾	8.89	187	82,592,930
May		5¾ - 6	8.91	188	91,305,550
June		5¾ - 6	7.70	191	69,547,500
July		5¾ - 6	9.23	207	93,378,690
August	Aug 9. 6%	6	8.23	218	95,603,400
September		6	8.50	225	100,056,120
October		6 - 6¼	6.43	202	141,668,410
November	Nov 1. 5%	5½ - 6	5.44	151	72,460,420
December	" 15 4½%	5½	4.83	154	83,583,780

*Rates prevailing during 7-day period ending with 15th of month.
**Based on closing prices of common stocks on Thursday.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 5, 1930

See BH

To Mr. Hamlin

Subject:

From Mr. Goldenweiser E.A.G.

2—8495

Reference is made to your memorandum of October thirty-first, in which you wish to have some figures about acceptance purchases in 1928, and also ask me whether I agree with Mr. Schneider's statement that the expansion of Federal reserve credit in 1928 exceeded seasonal requirements by about $100,000,000.

I am attaching two tables: one showing changes in the Federal reserve situation from July to November 1928 and the other making the same comparison from July to December. I am inclined to think that the July to November comparison is fairer, because December always presents peculiar problems of its own. On the basis of the November comparison, it is clear that Mr. Schneider's statement that Federal reserve credit expanded $100,000,000 in excess of seasonal requirements is incorrect, as the expansion of reserve bank credit of $122,000,000 was only slightly larger than the demand for money in circulation, which was $114,000,000. Mr. Schneider's statement, therefore, is certainly inaccurate in form. I am inclined to think, however, that in substance he is right. Bill purchases between July and November 1928 increased by $286,000,000, and this was sufficient, not only to meet all the seasonal demands, but also to reduce member bank discounts by about $193,000,000. There were other factors, of course, but a consideration of these two factors alone shows that liberal purchases of bills by the reserve banks in the autumn of 1928 in excess of the demands for reserve bank credit resulted in a reduction

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of member bank indebtedness and, therefore, in an easing of credit conditions. As a consequence, rates on bills and on commercial paper, as well as rates to customers, declined contrary to the usual seasonal trend. I think there is no doubt that this was a factor in the revival of speculation and in the growth of brokers loans. It represented a break in the system's firm money policy adopted in the beginning of 1928.

FEDERAL RESERVE DEVELOPMENTS: JULY TO NOVEMBER 1928

(In millions of dollars)

	July	November	Change
Bills discounted	1,090	897	- 193
Bills bought	185	471	+ 286
United States securities	213	238	+ 25
Other reserve bank credit	43	47	+ 4
Total reserve bank credit	1,531	1,653	+ 122
Monetary gold stock	4,113	4,151	+ 38
Treasury currency	1,782	1,787	+ 5
Money in circulation	4,746	4,860	+ 114
Member bank reserve balances	2,324	2,352	+ 28
Nonmember deposits	30	32	+ 2
Unexpended capital funds	326	347	+ 21

Trendist

	+
Bills	286
U S Secs	25
Other Res. cred	4
	315

~~Discts~~ - 193

<u>FEDERAL RESERVE DEVELOPMENTS: JULY TO DECEMBER 1928</u>

(In millions of dollars)

	July	December	Change
Bills discounted	1,090	1,013	- 77
Bills bought	185	483	+ 298
United States securities	213	263	+ 50
Other reserve bank credit	43	65	+ 22
Total reserve bank credit	1,531	1,824	+ 293
Monetary gold stock	4,113	4,142	+ 29
Treasury currency	1,782	1,790	+ 8
Money in circulation	4,746	5,008	+ 262
Member bank reserve balances	2,324	2,367	+ 43
Nonmember deposits	30	29	- 1
Unexpended capital funds	326	352	+ 26

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 7, 1930

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2—8495

In accordance with your request, I am giving you the following figures for reporting member banks for July and November 1928:

(In millions of dollars)

	July	November	Change
Loans on securities	6,955	7,082	+ 127
All other loans	8,937	9,014	+ 77
Investments	6,114	5,888	- 226
Total loans and investments	22,006	21,983	- 23
Brokers loans of reporting member banks	4,232	5,102	+ 870

The figures are monthly averages of weekly reports.

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Sec Bk

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 6, 1930

To Mr. Hamlin

Subject: Charts on Federal reserve credit and security loans

From Mr. Smead

2—8495

CSS

In accordance with your request of October 29, we are handing you herewith five charts covering the period 1922 - 1930 as follows:

1. Reserve bank credit.

1a. Reserve bank credit, gold stock, money in circulation, and member bank reserve balances.

2. Brokers' loans made by New York City reporting member banks for their own account, for correspondents and for others.

3. Security loans made by reporting member banks in New York City for their own account, to brokers and dealers and to others.

4. Security loans made by all weekly reporting member banks for their own account, to brokers and dealers and to others.

On chart 1-a we show a curve "reserve bank credit plus gold stock" which in effect shows the trend of reserve bank credit after eliminating the effect of changes in monetary gold stock. You will note that the fluctuations in this curve correspond very closely with the fluctuations in curve 2, money in circulation. One significant phase of these curves, however, is the widening of the margin between the two, which is due largely to the gradual increase in member bank reserve balances as indicated in curve four of the chart. This latter curve reflects the increase in deposits of member banks. The periods since 1922 in which this curve has shown marked increases are 1924 and 1927. Since the middle of February of this year the curve has also shown a decided upward trend. All three of these periods, 1924, 1927 and 1930, have been periods of marked ease in credit conditions and periods when the security holdings of the Federal reserve banks have reached approximately $600,000,000.

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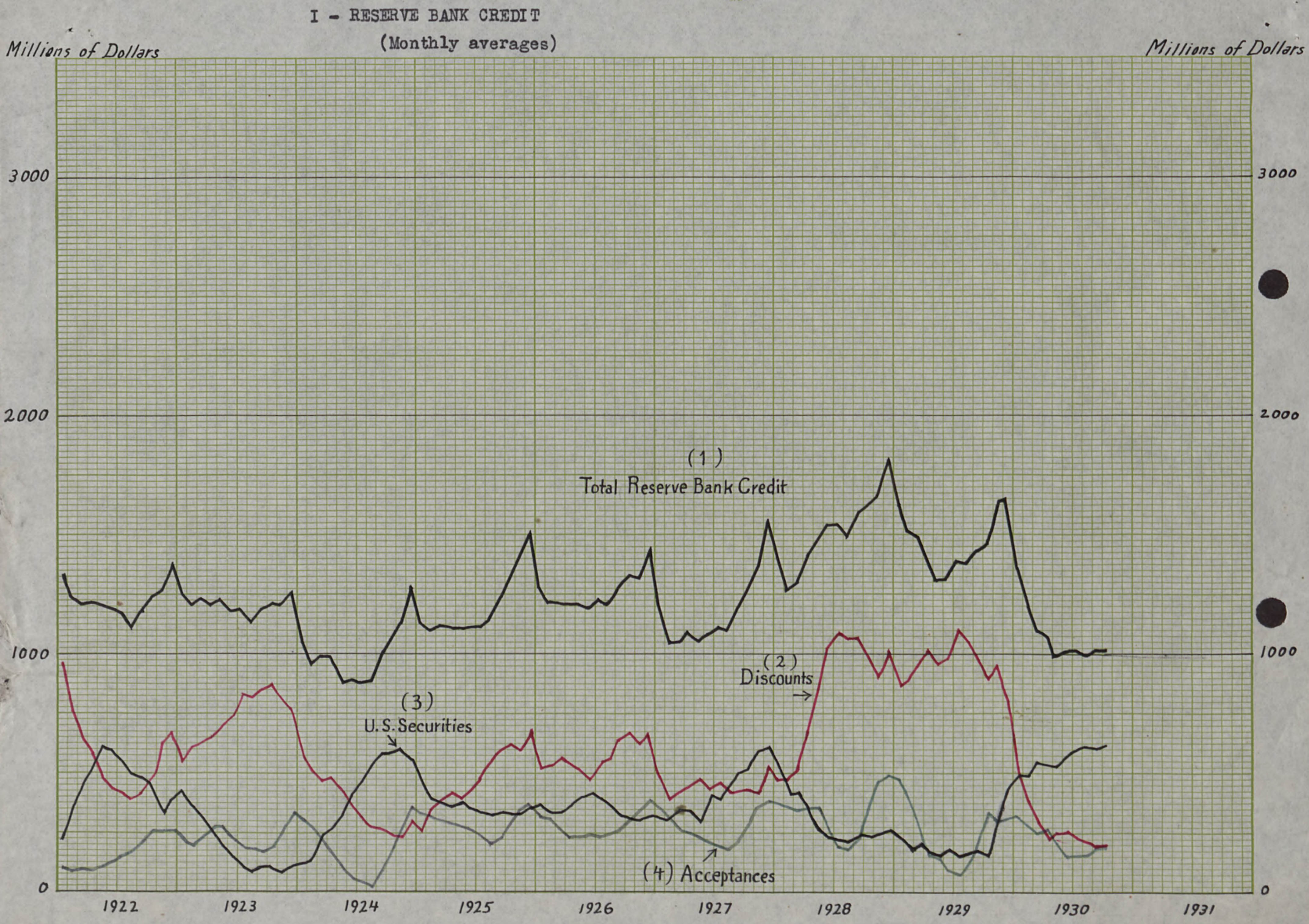
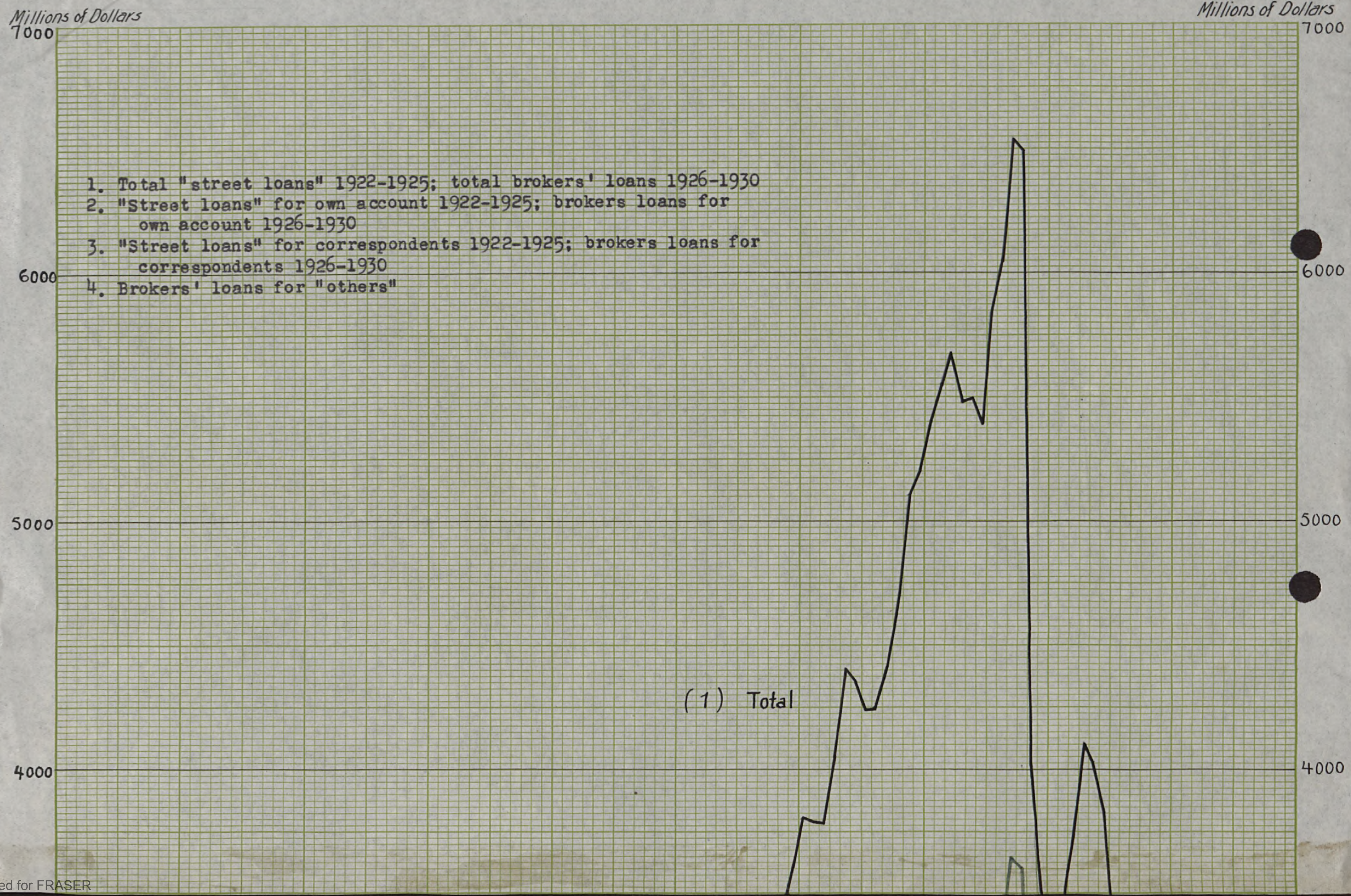
G3'

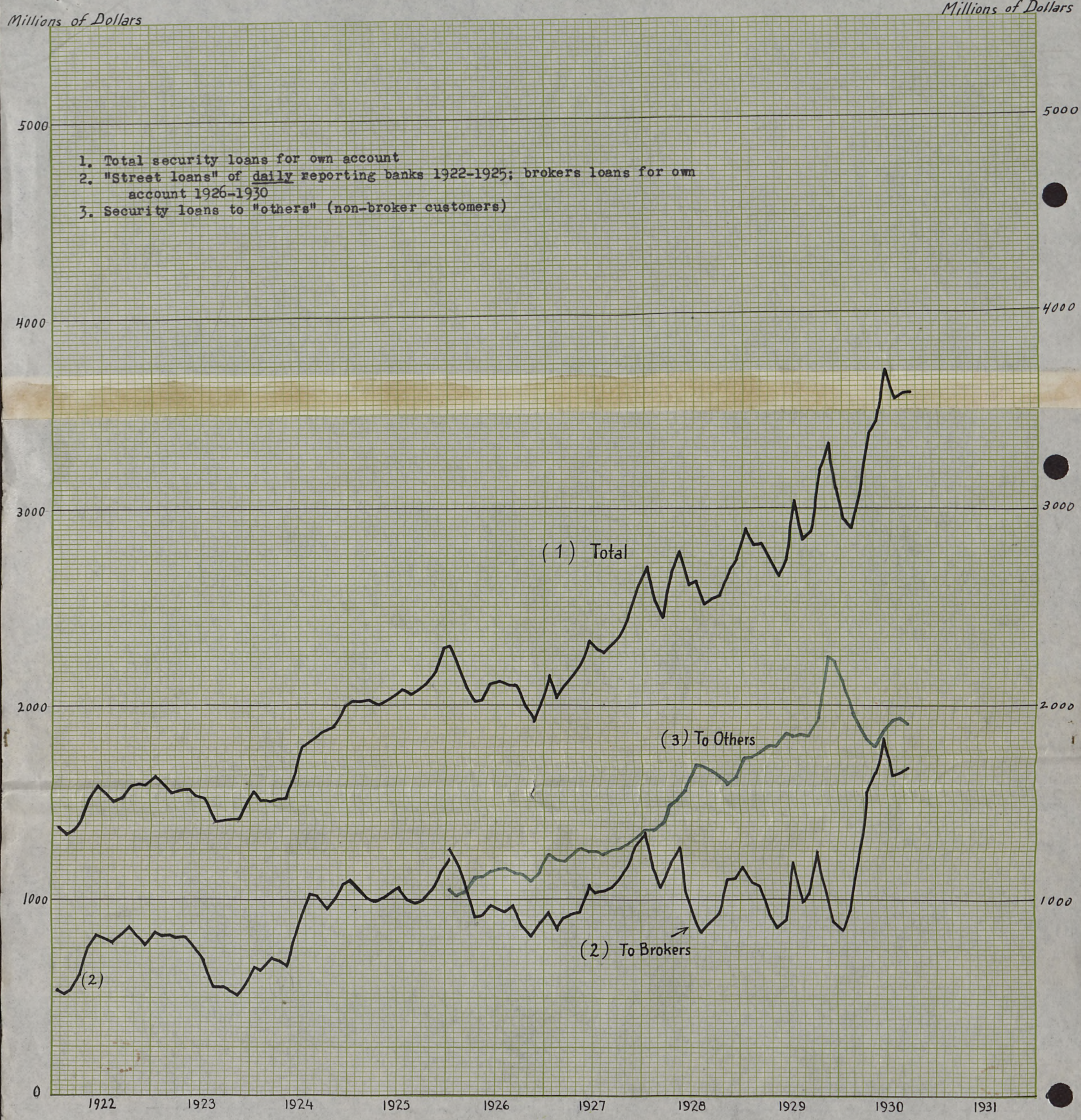

I - RESERVE BANK CREDIT
(Monthly averages)
Millions of Dollars
Millions of Dollars
3000
2000
1000
0
3000
2000
1000
0
(1)
Total Reserve Bank Credit
(2)
Discounts
(3)
U.S. Securities
(4) Acceptances
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931

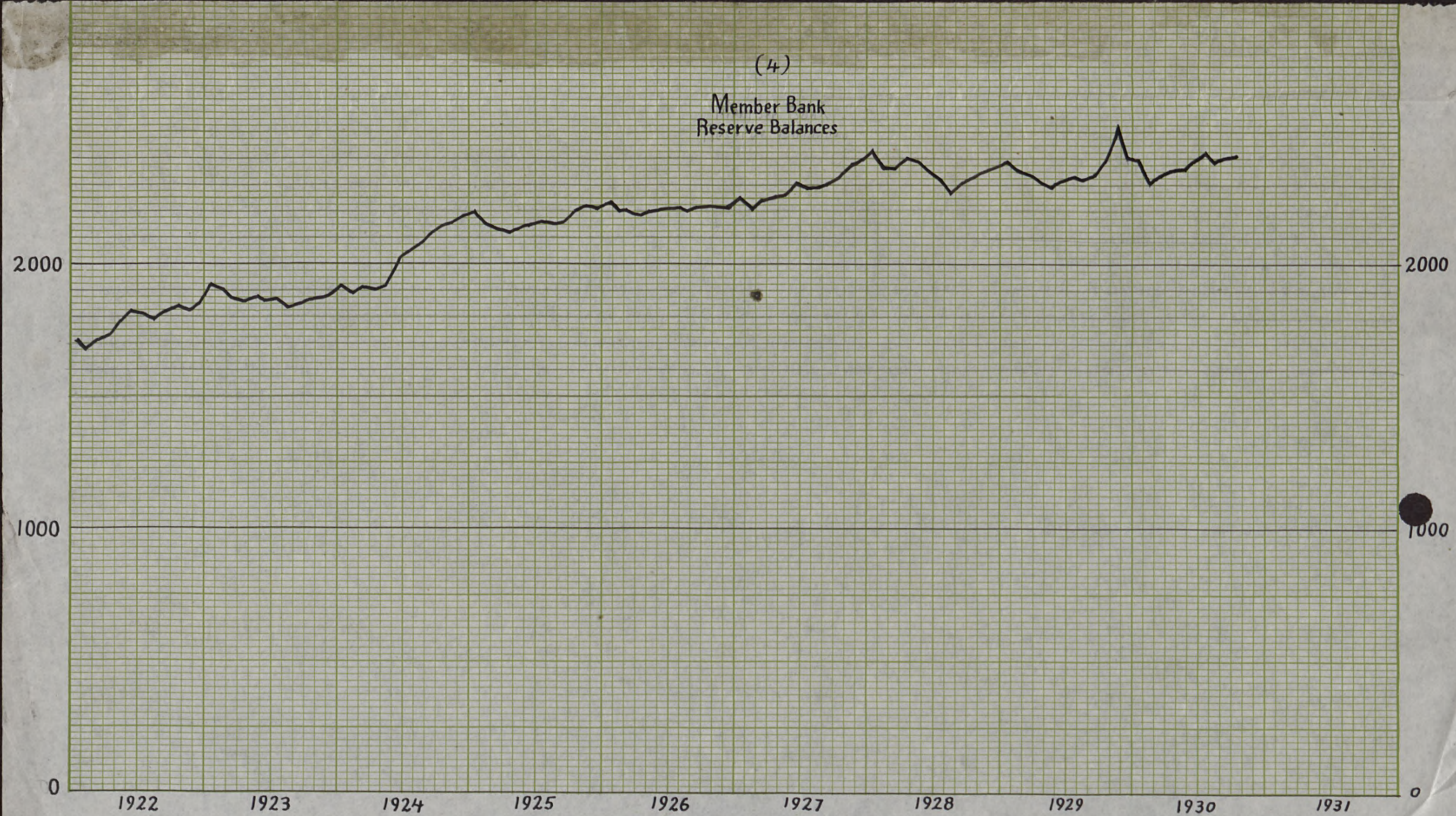
II - NEW YORK CITY REPORTING BANKS - BROKERS' LOANS
(Monthly averages)




3000
2000
1000
0
(1)
(2)
(3)
(4) Others
(3)
Correspondents
(2)
Own Account
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931

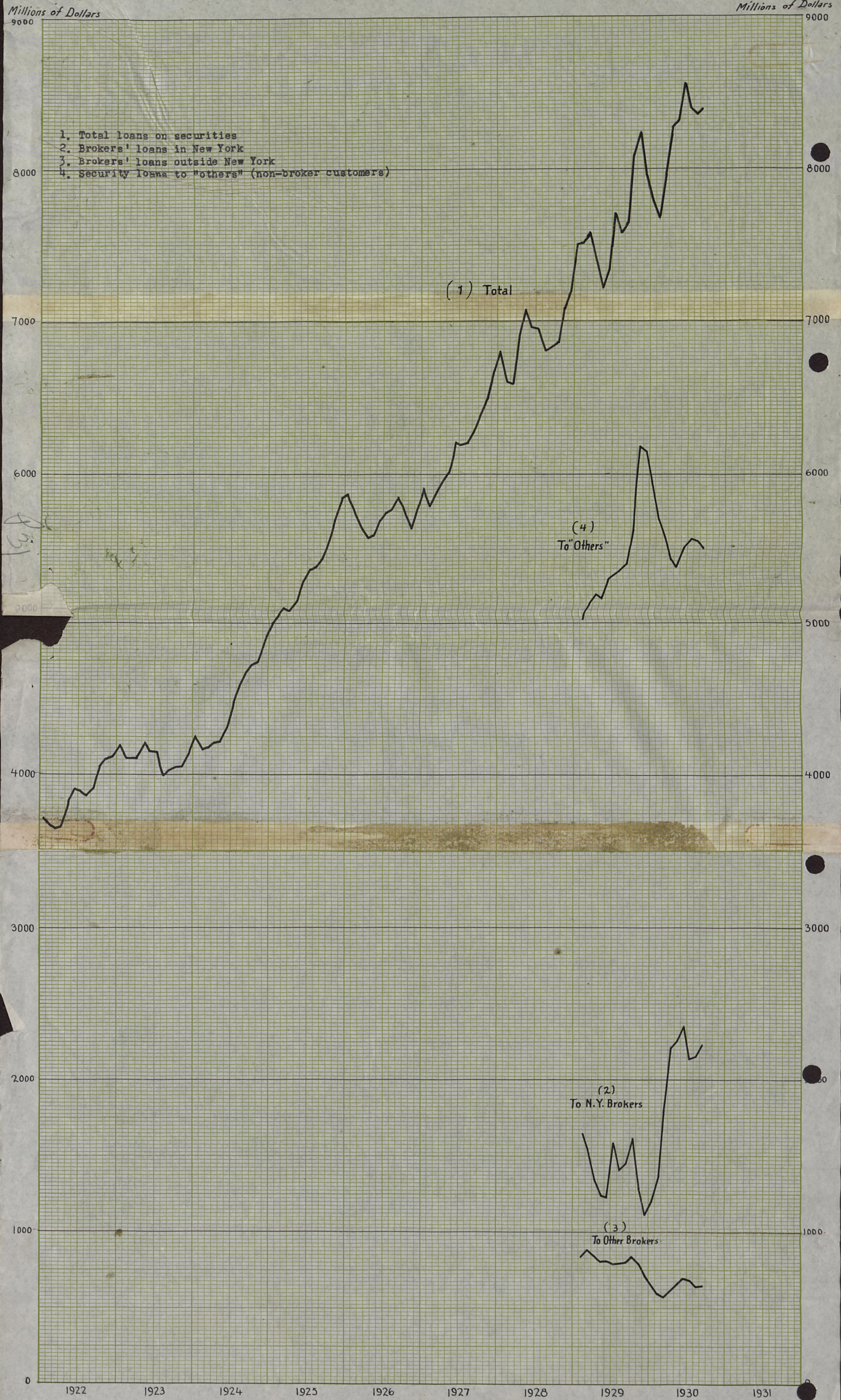
III - NEW YORK CITY REPORTING BANKS -- SECURITY LOANS FOR OWN ACCOUNT
(Monthly averages)




(4)
Member Bank
Reserve Balances
2000
1000
0
2000
1000
0
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931

I.A - RESERVE BANK CREDIT, GOLD STOCK, MONEY IN CIRCULATION AND MEMBER BANK RESERVE BALANCES
(Monthly averages)

IV - ALL WEEKLY REPORTING BANKS -- SECURITY LOANS
(Monthly averages)



Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

See Du

Date November 8, 1930

To Mr. Hamlin

From Mr. Goldenweiser

Subject: Recent Economic Changes

GPO 2—8495

The Report of the Committee on Recent Economic Changes was released to the press on May 15, 1929 under date of May 1. It appears to have been put into final form during March and April 1929.

I have had prepared for you a brief summary of the Committee's report. I think that there is clear evidence that the Committee was somewhat under the sway of the new era philosophy. There are a few statements that indicate that the Committee was cautious not to be too optimistic, but these statements in the general context of the report gave the impression of being afterthoughts. In so far as I can find, the Committee makes no reference to security prices.

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November 8, 1930

SUMMARY OF THE REPORT OF THE COMMITTEE ON RECENT ECONOMIC CHANGES, 1929

1. Our national life during this period (1922-1929) has been characterized by intense economic activity, a marked increase in the physical volume of production and in the volume of economic services, and a rising standard of living.

2. While the forces underlying these developments--such as the growth of human wants and desires; business enterprise; competition; teamwork between business leaders, economic experts, and the Government--are not new, "the breadth and scale and 'tempo' of recent developments give them new importance."

3. Certain points deserve special mention: We have new evidence of the expansibility of human wants, the possibility of large increase in productivity per man-hour (largely through more use of power and automatic machinery), the value of "high wages and low costs as a policy of enlightened industrial practice," the fact that people cannot utilize leisure without consuming goods and services,

4. "We cannot maintain our economic advantage, or hope fully to realize on our economic future, unless we consciously accept the principle of equilibrium and apply it skilfully in every economic relation."

5. As for our future, though it bristles with problems that are a challenge to leadership and hard work, there appears to be really nothing much to worry about. Some groups, some industries, some areas, are now less prosperous than others; "technological" unemployment deserves attention; speculation in stocks on borrowed money has diverted savings from business to speculation, and brought about an increase in the cost of money for business purposes and indications of credit stringency. But in attacking the problems before us "the degree of progress in recent years inspires us with high hopes."

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, NOVEMBER 1930.

Federal Reserve Bank	Month of November 1930									January - November 1930		
	Earnings from -					Current expenses		Current net earnings				
	Dis-counted bills	Pur-chased bills	U. S. secu-rities	Other sources	Total	Exclusive of cost of F.R.Currency	Total	Amount	Ratio to paid-in capital	Current net earnings	Dividends accrued	Available for reserves, surplus and franchise tax*
									Per cent			
Boston	$28,443	$22,865	$95,990	$6,600	$153,898	$156,776	$171,140	(a)$17,242	-	$252,998	$646,569	(a)$396,201
New York	85,968	79,976	370,533	23,967	560,444	521,682	560,648	(a)204	-	3,168,931	3,682,601	449,911
Philadelphia	57,466	4,625	116,214	3,970	182,275	148,727	164,547	17,728	1.3	894,443	918,640	(a)24,356
Cleveland	79,930	31,122	128,555	14,508	254,115	203,750	220,159	33,956	2.6	839,781	873,800	(a)98,526
Richmond	61,641	15,708	35,218	4,173	116,740	118,337	127,460	(a) 10,720	-	64,299	324,517	(a)289,401
Atlanta	76,124	16,995	22,583	6,089	121,791	98,686	105,008	16,783	3.8	562,940	296,561	259,259
Chicago	53,401	32,177	193,608	32,624	311,810	257,946	259,666	52,144	3.1	913,153	1,110,684	(a)231,421
St. Louis	48,814	11,413	48,190	3,394	111,811	112,541	126,495	(a) 14,684	-	354,530	290,409	55,209
Minneapolis	10,942	7,861	63,335	3,058	85,196	75,529	80,112	5,084	2.0	204,174	169,137	41,352
Kansas City	40,754	13,363	59,897	25,890	139,904	139,250	145,337	(a)5,433	-	(a)120,039	237,851	(a)360,947
Dallas	25,035	10,056	69,965	1,391	106,447	103,818	109,746	(a)3,299	-	244,192	240,736	(a) 17,100
San Francisco	25,863	42,985	89,878	4,561	163,287	186,878	197,528	(a)34,241	-	(a)129,149	625,402	(a)927,598
TOTAL												
November 1930	594,381	289,146	1,293,966	130,225	2,307,718	2,123,920	2,267,846	39,872	.3			
October 1930	563,699	305,625	1,373,396	130,960	2,373,680	2,164,962	2,295,364	78,316	.5			
November 1929	3,943,494	1,271,127	1,019,436	233,450	6,467,507	2,206,458	2,372,858	4,094,649	29.7			
Jan.-Nov. 1930	9,747,522	5,673,122	15,865,250	1,926,415	33,212,309	23,979,165	25,962,056	7,250,253	4.6	7,250,253	9,416,907	(a)1,539,819
1929	44,477,127	10,813,401	6,764,511	2,315,914	64,370,953	24,350,444	27,260,606	37,110,347	25.5	37,110,347	8,735,673	27,697,323

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
DECEMBER 10, 1930.

(a) Deficit.

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

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RATIO OF AVERAGE MEMBER BANKS BORROWINGS FROM FEDERAL RESERVE BANKS
TO THEIR AVERAGE RESERVE BALANCES, 1919-1929

Year	Member banks reserve balances	Bills discounted for member banks	Ratio of discounted bills to member bank reserve balances (Per cent)
1919	$1,718,588,000	$1,905,697,000	110.9
1920	1,834,523,000	2,523,073,000	137.5
1921	1,671,209,000	1,797,226,000	107.5
1922	1,781,124,000	571,220,000	32.1
1923	1,872,507,000	735,608,000	39.3
1924	2,023,073,000	372,121,000	18.4
1925	2,167,041,000	480,609,000	22.2
1926	2,208,899,000	568,166,000	25.7
1927	2,290,234,000	442,287,000	19.3
1928	2,355,028,000	839,942,000	35.7
1929	2,357,516,000	950,580,000	40.3

DIVISION OF BANK OPERATIONS
DECEMBER 12, 1930

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MEMBER BANKS BORROWING CONTINUOUSLY FROM THE FEDERAL RESERVE BANKS FOR ONE YEAR

	Continuous borrowers		Average borrowings during last quarter	
	Number	Percent of all member banks	Amount	Percent of borrowings of all member banks
Year ending:				
March 31, 1929	261	3.0	$78,261,000	8.7
Sept. 30, 1929	317	3.7	114,600,000	11.1
March 31, 1930	377	4.5	53,687,000	14.0
Sept. 30, 1930	291	3.5	26,220,000	12.5

MEMBER BANKS BORROWING CONTINUOUSLY FROM THE FEDERAL RESERVE BANKS IN EXCESS OF THEIR CAPITAL AND SURPLUS DURING MONTH OF SEPTEMBER

Year	Number	Per cent of all member banks	Amount	Per cent of borrowings of all member banks
1923	543	5.5	$203,633,000	23.0
1924	364	3.7	51,240,000	18.6
1925	202	2.1	48,284,000	7.6
1926	198	2.1	46,292,000	6.8
1927	97	1.1	20,616,000	4.7
1928	121	1.4	66,975,000	6.3
1929 (March)	43	.5	16,858,000	1.6

DIVISION OF BANK OPERATIONS
DECEMBER 12, 1930

Excerpt from the minutes of the meeting of the Federal Reserve Board, held on October 17, 1928:

"Discussion then ensued regarding the letter dated October 10th from the Deputy Governor of the Federal Reserve Bank of New York, ordered circulated at the meeting on October 12th, with reference to the increased bill holdings of the System and the effect which a further increase in the System's purchases of bills is likely to have upon money rates.

Following an informal discussion, the Vice Governor was requested to address a letter to the Deputy Governor of the Federal Reserve Bank of New York, advising that members of the Board are not quite clear as to the meaning of the last paragraph of his letter and wish that it could be clarified, stating that one or two members of the Board have so interpreted it as to reach the conclusion that it involves an abandonment of the policy which the System has been following of keeping certain pressure on the money market.

The Vice Governor was also requested to inquire as to the position of the directors of the Federal Reserve Bank of New York in the matter."

Excerpt from the minutes of the meeting of the Federal Reserve Board, held on November 13, 1928:

"The Governor then submitted a letter dated October 26th from the Deputy Governor of the Federal Reserve Bank of New York, which he had previously brought to the attention of the individual members of the Board, replying to the Board's inquiry of October 25th as to the proper interpretation of the last paragraph of the Deputy Governor's letter of October 10th, explaining in detail the Autumn demand for bank credit and the manner in which that demand was being met.

Noted."

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November 26, 1930.

Also Int. situations

See Bo

Federal Reserve Bank of New York
1927 and 1928.

1927:

Nov. 2. Open Market Conference favors maintaining stable rates at present level. Favors offsetting gold imports.

14 - 77, 78, 79 (183).

1928:

Jan. 9. The Board desired to hold Open Market Conference in New York.

McGarrah advised against it, saying the situation was full of dynamite.

14 - 107 (184)

Jan. 10. The Board authorizes Mr. Case to sell from 50 to 75 millions of Government securities, as requested by him.

14 - 110 (184).

Jan. 12. The Open Market Conference states that the object of the policy outlined in November, 1927, has been accomplished; that the System should now work for firmer conditions and should sell Government securities to check rapidly increasing credit demands.

176 - 4.

Feb. 3. New York increases to 4%. Acceptance buying rates increased from 3-3/8 to 3½%.

Mar. 26. Governor Strong asked authority to work for firmer money conditions because of unnecessary credit expansion, and to sell Government securities, but not with any desire to increase discount rates.

The Board voted to approve the sale of Government securities, but indicated that it did not thereby authorize an increase in discount rates.

14 - 139, 140 (185).

Apr. 29. Open Market Conference states that credit expansion is continuing at an undue rate. Reaffirms its recommendation of Jan. 12th.

180 - 25.

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1928:

May 1. Dr. Miller tells the Governors that sales of Government securities should cease; that credit should be regulated by discount rates.

Dr. Miller advised Mr. Case to call a conference of the Presidents of the large New York banks in order that speculative loans might be reduced.

14 - 159, 160 (186).

May 2. The Board approved the Open Market Committee report.

14 - 160 (186).

Governor Seay claimed that System's open market policy has spread inflation. C.S.H. asks him if this applied to the year 1926, and he replied Yes. C.S.H. then read his telegram sent in 1926 to the Open Market Committee protesting against the sale of Government securities.

14 - 160 (186).

May 18. The Federal Reserve Bank of New York increases discount rates to 4½%. Acceptance rates increased from 3¾% to 4%.

May 26. The Open Market Committee favored continuing sales of Government securities, and the Board approved this recommendation.

14 - 165, 166 (187).

July 13. The Federal Reserve Bank of New York increases discount rates to 5%, and increases bill rates from 4% to 4¼%.

July 18. Mr. Case said that at a recent meeting of the New York directors, Dr. Miller opposed calling the New York bank presidents together and admonishing them as to speculative loans.

Dr. Miller explained to the Board that the conditions then had changed.

All the Board members agreed that they did not approve such a warning at the present time.

14 - 193 (188).

Dr. Miller opposed any further purchase of Government securities. He favored dropping open market operations (as had been done since January 1928) and to regulate credit through discount rates.

14 - 194 (188).

1928:

July 20. Bill rates increased at New York from $4\frac{1}{4}\%$ to $4\frac{1}{2}\%$.

Aug. 16. The Board, in view of possible credit strain, authorized the Committee to ease through purchase of bills, if possible, but authorized purchase of Governments up to 100 millions if absolutely unavoidable.

15 - 7, 8 (186).

Aug. 20: Governor Seay writes the Open Market Committee protesting against purchase of Government securities. States that member banks should be forced to take the initiative by reducing their speculative loans.

15 - 13, 14 (188).

Sept. 4. Governor Young and Mr. James in New York.

They consult with Governor Harrison, Owen Young, Woolley and Reyburn. Governor Young reported to the Board that Governor Harrison wishes to ease by further purchase of Government securities as authorized by the Board, if absolutely necessary; that the New York directors, however, forbade his purchasing any Governments or sterling exchange without the consent of Messrs. Owen Young, Woolley and Reyburn.

15 - 22, 23 (188).

Sept. 7. Governor Young says Governor Norman told him that he should cease protecting British exchange and should allow gold to go to New York.

The Board agreed not to offset these imports if they occur, as they believe the banks would use them to take down discounts.

Mr. James disagreed, claiming that as long as the call money rates were higher than the discount rates, banks would invest in call loans.

Sept. 26. Governor Case to Governor Young.

States that speculation has increased on a large scale; that business has all the funds it needs; that bill holdings will increase greatly.

Recommends holding the bill rates at $4\frac{1}{2}\%$, as they are now, without any increase in rates in the autumn when rates are usually increased by $\frac{1}{4}$ of 1%.

Sept. 26 (Cont'd.)

He also favored buying bills freely, stating that the rates now were lower than usual for this time of the year.

He admits that lowering bill rates will encourage speculation. He states that a $4\frac{1}{2}\%$ rate will attract bills to meet the autumn requirements for Federal reserve credit.

Sept. 28. Federal Advisory Council opposes any increase in discount rates.

Oct. 10. Governor Case to Governor Young.

Policy of supplying autumn credit needs through bill purchases has been successful.

The low bill rates have increased our holdings, and have supplied the entire amount of Federal reserve credit needed.

Points out that the bill holdings may increase faster than the demand for Federal reserve credit, and that discounts may be reduced andmoney rates may be easier.

Oct. 17. At the Board meeting, the Vice Governor was directed to write Governor Case that some of the Board members were not clear as to the last paragraph of his letter of October 10, and wished to have it clarified; that some members interpreted it as an abandonment of the policy which the System had followed of keeping certain pressure on the money market.

It further directed the Vice Governor to inquire as to the position of the New York directors as to this matter.

Oct. 24. Governor Case to Governor Young.

The bill holdings have increased, and the member bank rediscounts decreased without a corresponding increase in Federal reserve credit.

The call money market is temporarily easier.

Federal reserve credit is now 100 millions over the August average, and the peak of seasonal requirements until the Holidays appears to have been passed.

Bill holdings are 200 millions higher than the average for August.

Oct. 24 (Cont'd.)

The average for October will show larger increase than in any previous year.

As a result, member bank borrowings have decreased to the lowest average since May, both for New York and for the System.

The credit demand for speculative loans shows no sign of abating.

The member banks are using the additional funds to take down rediscounts.

Little increase in Federal reserve credit which we have been inclined to accept as the criterion of our policy.

Prospect for comfortable conditions in the call money market until December.

After the first of next year, the member bank indebtedness will be considerably below 1 billion dollars, and money conditions will be easier still.

The figures as to member bank credit will need close watching, in view of the situation.

<u>Oct. 25</u>. Governor Young to Governor Case.

Acknowledges Governor Case's letter of October 10.

Board not certain as to the last paragraph of your letter. As I understand it, you desired to point out that bill holdings were increasing so rapidly that discounts were beginning to decline, and that if this situation continued, its principal effect would be a lowering of the call money rate; in other words, the pressure on speculative credit might be relieved to such an extent that an undesirable situation would develop.

This would amount to a reversal of the policy which the System has been following since January, and would be a result which I assume you and your associates would not care to have brought about at the present time, because of the unusual activity in speculative credit.

<u>Oct. 26.</u> Governor Case to Governor Young.

Your interpretation of my letter of October 10th states exactly what I had in mind.

Oct. 26. (Cont'd.)

It seemed probable, then, that the increase in our bill holdings would not be accompanied by a corresponding increase in the demand for reserve bank credit, with the result that member bank indebtedness would be reduced.

As the call money market is always first to reflect any such change, it seemed likely that call money rates would ease somewhat, and that, as you have indicated, this would have a tendency to relieve the pressure on speculative credit.

The easier tendency in call money did develop, but there has been an apparent reversal during the last day or two. There seems to be no explanation in member bank indebtedness for the 8% money of yesterday and today.

The best explanation we have been able to hit upon is that there has been an active demand for new loans, and, as there appears to have been no corresponding increase in the supply from other sources, the New York city banks have had to provide most of the additional funds, and have been willing to do so only at a fairly stiff price.

Under present conditions, however, it hardly seems to us that an 8% rate can be maintained more than temporarily.

Nov. 13. At the Board meeting, the Governor submitted the letter from Governor Case dated October 26, which he had previously brought to the attention of the Board members, replying to the Board's inquiry of October 25th as to the proper interpretation of the last paragraph of the Deputy Governor's letter of October 10th explaining in detail the autumn demand for bank credit, and the manner in which that demand was being met.

The Board ordered this "noted."

Nov. 13. Governor Harrison sends Governor Young a memorandum of minutes of the Open Market Committee meeting at the Hotel Carlton, Washington. The secretary presented the formal report of the secretary to the Committee dated November 12th, and a copy of the preliminary memorandum dated November 14th.

The preliminary memorandum gives a very good review of the System policy from 1927 to date.

The Committee decided it would be advisable to renew its recommendation of August 13, 1928, that it should be authorized to purchase Government securities to avoid an acute credit stringency.

Nov. 13 (Cont'd.)

At the afternoon session, the Committee voted to adopt a report to be submitted to the Conference of Governors before final presentation to the Federal Reserve Board. The gist of this report was that the Committee has reviewed the preliminary memorandum and has considered the development of conditions since its report of August 13; that it considers the policy substantially effective in providing credit for seasonal agricultural and commercial purposes at relatively low rates, and without any abnormal increase in the total volume of member bank loans and investments for this period of the year.

The Committee is of the opinion, however, that it should still be the policy of the System, if possible, to prevent any unduly rapid or unnecessary further increase in the total volume of bank credit, although in fact the total loans and investments of all reporting member banks are now slightly below the high point of May; that we are now approaching the usual seasonal demand for currency for Holiday purposes. This will result in increased borrowings except to the extent that further gold imports offset the demand for Federal reserve credit.

Already there is some evidence of easier money rates, contributed to partly by the inflow of gold and partly by the large increase in the bill portfolio of the Federal reserve banks, each of which has caused a reduction of member bank rediscounts in the New York district.

While these conditions appear to have an easier tendency, the uncertainty of the gold movement, the approaching demand for currency, and the usual demand for Federal reserve credit during December, suggests to the Committee that the System should still be prepared in the event of an emergency to prevent any undue stringency of credit during this period.

The Committee renews the recommendation of August 13th that it should be the policy of the System to purchase Government securities if and when it should become necessary to avoid an acute stringency.

<u>Nov. 15.</u> Meeting of the Open Market Committee with the Conference of Governors.

The secretary read to the Conference the report of the Open Market Committee as approved at its meeting this morning.

It was duly voted to approve and adopt the report as the recommendation of the Conference to the Federal Reserve Board.

Nov. 15 (Cont'd.)

While no formal action was taken, it was the general sentiment that buying rates for bills should be increased, especially in view of the expansion of the bill portfolio since September, in relation to the net increase in the total volume of Federal reserve credit outstanding.

Nov. 16. Meeting of the Open Market Investment Committee, the Governors' Conference and the Federal Reserve Board.

The Secretary presented to each member of the Board a copy of the report of the Open Market Committee as approved by the Conference of Governors, as also copies of the preliminary memorandum dated November 14th and the preliminary report of the secretary of the Committee dated November 12th.

In the discussion, it was pointed out that in substance the report involved a continuance of the present policy of the System, except that in the event of a possible emergency, the System should be prepared to purchase Government securities in order to avoid an acute credit stringency; that this proposal involved no more than a renewal of the recommendation of August 13th approved by the Federal Reserve Board; that while there had been no occasion to exercise the emergency authority granted in August, and while at the moment there appeared to be a temporary period of ease in money rates, nevertheless, in view of the approaching demands for currency for Holiday purposes which normally result in an equivalent expansion of Federal reserve credit, and the uncertainty of the present credit situation, the Committee should have the same emergency authority that was granted to it in August when we were approaching the usual seasonal demand for credit moving purposes.

Nov. 22. The Federal Advisory Council opposes any increase in discount rates, on the ground that it would have an adverse effect on business.

Nov. 23. Mr. McGarrah to Governor Young.

States that Dr. Miller was present at the Board meeting yesterday, and asked to have a copy of the weekly resolution passed by our directors, authorizing the officers to participate in the purchase of securities for the account of the System.

Quotes a resolution of his Board of directors authorizing the officers to participate in the purchase of Government securities up to 25 millions for the open market investment

Nov. 23 (Cont'd.)

account, if deemed necessary by the officers prior to the next meeting of the directors. It was further provided, however, that before exercising this authority, the officers must consult with at least two of the directors.

Mr. McGarrah also states that Governor Case presented the report of the Open Market Committee dated November 15th to the New York directors, which board voted to approve the report recommending the System policy, with the understanding that the report contemplated the purchase of Government securities only in the event of an emergency.

After action taken upon the report, the directors passed a resolution similar to the one quoted above.

Nov. 27. Governor Young to Mr. McGarrah.

Board is in harmony with the conclusion of the Open Market Committee report dated November 15th, that for the present at least, the policy should be one of marking time. The Board further observes that the Committee suggests that the System should be prepared in the event of an emergency to prevent any undue stringency of credit, to purchase Government securities if and when necessary to avoid such credit stringency. The Board does not care to give approval to the purchase of Government securities for three reasons:

1. It would not be in harmony with expressions and actions already taken by certain reserve banks.

2. It is not prepared to say definitely that an emergency should be handled by the purchase of Government securities, or whether other avenues should be resorted to.

3. It believes if any real emergency develops it might be advisable to have another meeting of the Committee.

During the interim, however, adjustments of temporary credit situations which would not be in the nature of serious emergencies might be advisable, and the Board will hold itself in readiness to act promptly upon written or telephone requests from the Committee in an amount not to exceed 25 million dollars.

Dec. 26. Dr. Miller stated that one of the outstanding events in Federal reserve history for 1928 was the discontinuance of open

Dec. 26 (Cont'd.)

market operations, thus forcing the banks to settle credit demands by rediscounting.

15 - 114 (191).

1929,

Jan. 4. Governor Young calls special meeting to take action on New York's increase of acceptance purchasing rates, just reported, without prior authority from the Board.

Board finally agreed that New York was not bound to secure prior approval as the Board had approved a minimum rate and had always approved the actual rate as a matter of course, after it had taken effect.

Dr. Miller suggested a regulation that acceptance rates hereafter must be approved by the Board, just as discount rates.

Governor Harrison wired that his directors kept in the present rates until the crop moving was practically finished; that open market rates were high, and increasing; that if his bank did not increase rates it would be flooded with acceptances, and the proceeds would feed the stock market.

Jan. 7. The Board discussed with the Open Market Committee the credit situation, and the Committee asked for no approval of any policy. Governor Harrison, however, said the Committee should be given discretion, as otherwise there was no reason for having such a Committee.

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OPEN MARKET CONFERENCE COMMITTEE

November 2, 1927:

Policy recommended:

1. Maintain stable rates at present level.
2. Prevent further gold imports.

The program suggested:

(a) Offsetting gold movements by Government security operations.

(b) Any considerable seasonal advance in rates at end of year to be offset by temporary purchases of Government securities.

(c) During return flow of currency in January, 1928, sales of Government securities should be made to prevent seasonal issue from being added to member bank reserves.

(d) In event of renewal of gold imports: -

1. Purchase gold abroad.

2. Purchase foreign exchange limited to 100 millions.

3. Invest such gold or exchange in bills or loan it at interest as in the case of the Bank of England account.

4. Considerations to guide the Committee:

(a) Amount of borrowings by Federal reserve banks.

(b) General level of interest rates.

(c) Movement of foreign exchange rates as indication of possible gold imports.

C.S.H. moved approval of Committee recommendations.

Miller proposed a substitute or qualification of (d) to the effect that any use made of gold or exchange under (d) should be conditioned on special authorization of Board in each case, and further that any purchases or sales under (b) and (c) shall be made only after consultation with the

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Governor of the Federal Reserve Board. Dr. Miller's first suggestion was voted down; - Dr. Miller, Platt and Cunningham voting for it, and Secretary Mellon, Governor Young, James and C.S.H. voting against it. Dr. Miller then withdrew the second part of his substitution. C.S.H.'s motion of approval was then passed without a dissenting vote.

14 Diary, 77, 78, 79 (183).

January 9, 1928:

The Board decided to go to New York and hold open market conference. McGarrah advised against it, as it might precipitate trouble as the situation was full of dynamite. The Board decided not to go, in view of President Coolidge's statement and McGarrah's advice.

14 Diary, 107 (184).

January 10, 1928:

Board voted to authorize Committee to sell from 50 to 74 millions of Government securities as requested by Governor Case for the Committee.

14 Diary 109 (184).

January 11, 1928:

Governor Young points out that an increase in discount rates does not directly change the amount of credit, but merely its price, while a sale of Government securities immediately changes the amount of credit.

14 Diary 110 (184).

C.S.H. moved to approve sale by Committee, from time to time, of further Government securities with accompanying power to buy temporarily should events not now foreseen require such action.

Platt moved to substitute a resolution more clearly based on Committee report.

Cunningham moved to substitute C.S.H.'s motion of approval.

Unanimously passed.

14 Diary 110 (184).

March 26, 1928:

Governor Strong submitted a report asking authority to work for firmer money conditions but not with any desire to bring about higher discount rates. *

The report was somewhat ambiguous but plainly meant that the stock market situation must be taken in hand.

Governor Strong said his directors unanimously favored further sales of Government securities.

The Board voted to authorize further sales of Government securities, but indicated in the wording of the vote its feeling that it did not authorize any increase in discount rates.

C.S.H. explained his vote by saying that sales of Government securities meant increased discounts, and that this change would enable the Federal reserve banks to handle the situation more effectively and avoid the necessity of penalizing agriculture and commerce by raising discount rates.

Cunningham voted for the motion, but said he concurred with C.S.H.'s explanation.

The vote was:

Aye: Gov. Young, Platt, James, Cunningham, C.S.H.
No: Miller

Dr. Miller later put on record an explanation of his vote, stating that he favored doing nothing as further sales of Government securities would necessitate raising of discount rates.

Dr. Miller criticised the whole policy of open market operations in Government securities, saying he had always opposed it.

14 Diary 139, 140 (185).

May 1, 1928:

Dr. Miller told the Governors that open market operations in Government securities should be put an end to, and that discount rates alone should be used to regulate credit; that this had always been his attitude; that he was disposed not to vote at all on the Committee's report favoring further sales of Government securities, but he might vote to give them all the rope they wanted (meaning with which to hang themselves).

Dr. Miller demanded of Governor Case that he call the Presidents of the large New York banks together, and warn them that the speculative loans must be reduced, but he said that when they were brought together they would say - who is responsible for our condition? The Federal Reserve System!

14 - 159. 160 (186)

May 2, 1928:

Board votes to approve report of Open Market Committee but defines what it understands to be the general policy of the Committee as referred to in the Committee report.

14 Diary 160 (186).

Governor Seay vigorously attacked the open market policy of the Committee and Board for the past years, saying that it had caused inflation.

C.S.H. asked him if his criticism included the year 1926, and he said that it did.

C.S.H. then read Governor Seay's telegram to the Open Market Committee dated August 27, 1926, in which he vigorously opposed continuing sales of Government securities, saying that what the country needed was greater ease and not stringency.

C.S.H. told Governor Seay that he had a note in his records that in his opinion Governor Seay was right, but this apparently gave little comfort to Governor Seay.

14 Diary 160 (186).

May 25, 1928:

The Committee favored continuing sales of Government securities; the special investment account is now only 100 millions.

The Committee also asked authority to buy up to 100 millions in case of any sudden emergency.

Governor Case said Mr. Morgan had made a firm offer for 25 millions which the Committee wanted to sell.

Governor Harding alone objected to this, saying it was poor policy to buy and sell in small amounts too frequently.

All members of the Board objected to giving power to buy further Government securities, preferring to wait until the necessity should arise.

Adjourned until afternoon.

In the afternoon, the Committee presented a new report striking out the request for authority to make purchases of Government securities.

The report, after discussion, was slightly amplified according to suggestions of Dr. Miller and James.

Later the Board unanimously voted to give the authority asked for to continue sales.

14 Diary 165, 166 (187).

May 26, 1928:

C.S.H. testifying before the H.R. Banking and Currency Committee on the Strong stabilization bill, put in a table covering the years from October 1924 to October 1927, and later to April 1, 1928, showing that open market purchases of Government securities (and also of acceptances) increased only in two of those years, while in the same years total of Federal reserve credit decreased; that during three years of this period, while total Federal reserve credit increased, purchases of Government securities decreased.

14 Diary 170 (187).

July 18, 1928:

Governor Case tells the Board that at a recent meeting of the New York directors, at which Dr. Miller was present, he opposed calling the New York bank presidents together and admonishing them as to speculative loans.

Dr. Miller explained that conditions had then changed.

C.S.H. asked if the members now approved such a warning. All said No, including Dr. Miller.

14 Diary 193 (188).

Dr. Miller said that if the Board authorized any further purchase of Government securities it would be hauled over the coals by Congress, and ought to be.

14 Diary 194 (188).

Dr. Miller said the Board had a wonderful opportunity, in view of the gold exports, to regulate credit through discount rates and to drop (as we have been doing since January 1927) open market operations.

14 Diary 194 (188).

August 14, 1928:

C.S.H slightly ill at Mattapoisett, and therefore did not come on for meeting.

Platt tells C.S.H. over telephone that there is a difference in the Board; that Dr. Miller and James oppose giving any authority to the Committee in its discretion to buy more Government securities; that the Board will meet tomorrow to discuss it further.

C.S.H. telegraphs Platt to effect that he personally feels that pressure should not be relaxed for some time at least; that he would, however, favor discretionary authority to the Committee to buy acceptances as usual, and, in case of sudden emergency, or of conditions under which continuous pressure would injure crop moving and penalize business more than it would help in controlling existing tendencies, - to purchase securities up to a fixed amount, but, if reasonably possible, Committee should consult with Governor Young before buying securities; but that if not possible, Committee should have discretionary authority.

15 Diary 3,4,5 (185).

Dr. Miller presented draft of letter to Federal reserve banks that Board will approve a rate for seasonal crop moving paper of from $\frac{1}{2}$ ~~of~~ to 1% below regular commercial paper rates, defining the term as paper arising out of the movement and marketing of the current crops, - such rate to continue only until the end of the normal crop moving season.

James submitted a proposition for a preferential rate only on bankers acceptances and trade bills, regardless of their origin.

Both the above were submitted to the Open Market Committee.

In the afternoon the Open Market Committee reported that preferential rates would probably not accomplish what was desired; that the question whether the season's crops can be moved reasonably and expeditiously involves a broad question of the whole credit structure and will have to be dealt with through open market operations rather than through preferential rates on commodity paper.

The Committee stressed the fact that its recommendation for the purchase of Government securities was intended only to cover an emergency situation, and that such securities would be purchased only as a last resort if a dangerous tight money situation should arise despite efforts to prevent such a situation through the purchase of acceptances, exchange operations, and otherwise; that to reduce bill rates would mean the dumping of a vast volume of acceptances on the Federal reserve banks, which, although easing the credit situation, would undo the work of many years in developing a bill market.

15 Diary 8, 9 (187).

C.S.H. believes this is the first time that purchase of acceptances has been favored for the purpose of relieving the credit situation. (Dr. Miller and James were unalterably opposed to purchasing of Government securities).

15 Diary 9, 10 (187).

August 16, 1928:

Board voted (Dr. Miller and James voting No) to send letter to Acting Governor Harrison, and it was accordingly sent as follows:

"Board has reviewed carefully the report of the Committee and its recommendation of August 13th and has also considered the verbal discussion which took place during the meeting and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry, and that if such a situation should develop the System should take some action to relieve the strain. The Board would not care to agree to the purchase of Government securities, except as a last resort.

"Board understands from the discussion held that you favor easing through the bill market, if possible, and through the Government security market only if unavoidable.

"With this understanding, the Board approves the purchase of Government securities by the Committee, but limits the amount to 100 millions.

"If a situation should develop which would require reconsideration, the Board would be glad to meet the Committee at any time for that purpose."

15 Diary 7, 8 (186).

August 20, 1928:

Governor Young called for a separate vote on the various paragraphs of the Board's letter of August 16, 1928. He said the Board members all agreed that:

1. That seasonal requirements might develop a strain on the credit situation, and that if such strain arose some action should be taken to relieve it.

2. That they would not agree to purchase of Government securities except as a last resort.

3. That Dr. Miller and James were against giving any authority to purchase Government securities.

4. That he, Governor Young, could not now accept Dr. Miller's suggestion of a commodity rate on seasonal crop moving paper; that such a rate should apply to business as well as agriculture; that he was not sure, however, but that we might use this idea in the future; that purchase of acceptances in increasing amounts would probably accomplish all Dr. Miller had in mind; that Governor Harding had said the Federal reserve banks could easily increase purchases of acceptances.
15 Diary 12, 13 (188).

C.S.H. referred to the telegram he had sent to Governor Platt.

Governor Young said the Federal Reserve Bank of New York would certainly consult with him before buying any more Government securities, so that it was unnecessary to impose this as a condition; that if an emergency should arise requiring instant action, the Committee was given discretion as suggested by C.S.H.

15 Diary 13 (188).

Governor Seay wrote the Open Market Committee expressing the hope that no Government securities be bought, and the member banks forced to take the initiative by reducing their speculative loans; he said he construes the phrase "last resort" in purchasing Government securities to mean a condition in which credit for business purposes can not be obtained except at rates materially higher than those which now prevail.

15 Diary 13, 14 (188).

September 4, 1928:

Governor Young and James went to New York last week and met Owen Young, Woolley, Reyburn and Harrison at Woolley's office.

Governor Young said that Harrison wanted to ease the market by purchase of Government securities, but the others would not consent; that they riddled Harrison's argument; that the directors later forbade any purchases of Government securities or British exchange without the consent of Owen D. Young, Woolley and Reyburn.

15 Diary 22, 23 (188).

Governor Young said he felt they would never choose Harrison as Governor should Governor Strong resign.

15 Diary 23 (188).

Governor Young said that if the New York directors ever complained that the Board did not trust the executive officers, he would reply that our Board trusted them as fully as did their own directors who forbade their exercising the discretion the Board gave them, as part of the Open Market Committee, to buy up to 100 millions of Government securities in an emergency.

15 Diary 23 (188).

September 7, 1928:

Governor Young said Governor Norman told him he should cease protecting British exchange, and should allow gold to go to the United States.

The Board all agreed to let this gold come without offsetting.

Governor Young said the banks would use it to take down their rediscounts. Mr. James claimed that so long as call loan rates were higher than discount rates, the banks would loan the gold on call. Governor Young denied this, and said that the banks would not be influenced by profits, but that some New York banks had sold bonds at a loss, thus reducing the amounts they would have had to rediscount.

James said the New York bank was being well managed by its directors and he was satisfied the credit demand of 2 or 3 hundred millions for crop moving purposes would be met.

15 Diary 24 (189).

<u>September 17, 1928</u>:

Governor Harding told C.S.H. in Boston that no more Government securities should be bought to ease up the credit situation, but that acceptance rates should be lowered and acceptances should be bought; that the proceeds of acceptances filter into the market more slowly than proceeds of the purchase of Government securities.

15 Diary 27 (189).

<u>September 28, 1928</u>:

Mr. Alexander said at a meeting of the Federal Advisory Council, that if corporations should suddenly withdraw say 500 millions from the call loan market, there would have to be a liquidation as the banks would not take over these loans.

Governor Young said this might bring on a panic.

Mr. Alexander later qualified this statement and said the banks would help as far as they could, but that the Federal Reserve System must do its part.

15 Diary 35 (189).

The Federal Advisory Council suggested making all banks members of the Open Market Committee, but with an executive committee having full powers. Governor Young favored this. Dr. Miller objected to giving the executive committee any power to act.

15 Diary 35, 36 (189).

October 6, 1928:

C.S.H. last week sent copies of his memorandum on the effect of open market purchases during the period of the $3\frac{1}{2}$% rate, - from August 4, 1927 to February 3, 1928, - to all Board members, the Federal Advisory Council, and others.

15 Diary 44 (189).

November 16, 1928:

Board considers changes in Open Market Committee at conference of Governors and Chairmen.

Governor Harding stated that the Board had no power to prescribe such a plan for an Open Market Policy Conference.

Dr. Miller answered Governor Harding and said that he did not wish the Board to operate any more than did Governor Harding; that there was doubt as to the Board's power to prescribe such a plan and for this reason the Board sought to effect a mutual agreement in the matter; that the open market power was the very heart of the System policy, and that, although primarily operated by the New York Federal Reserve Bank, it vitally affected all the Federal reserve banks, and should be considered by the Board and all of the Federal reserve banks.

15 Diary 74, 75, 76, 77 (191).

December 26, 1928:

Dr. Miller stated that one of the outstanding events in Federal reserve history for 1928 was the discontinuance of open market operations, thus forcing the banks to settle credit demands by rediscounting.

15 Diary 114 (191).

January 4, 1929:

Governor Young called a special meeting of the Board to take action on New York's increase in acceptance purchasing rates, just reported.

Governor Young was very indignant because the Board was not consulted, and wished to have the rate suspended. Platt said this would be a slap in the face of the New York directors. Governor Young said this was what he wanted.

Dr. Miller suggested asking the New York Bank not to announce the rate until the Board could consider it, and this was agreed to, Governor Young assenting very reluctantly.

The Board finally agreed that New York was not bound to secure prior approval as the Board had approved a minimum rate, and had always approved the actual rate as a matter of course, after it had taken effect.

Dr. Miller suggested a regulation that acceptance rates hereafter must be approved by the Board before becoming effective, and that such a regulation be drawn and discussed at a meeting of the Open Market Committee on Monday and that Mr. Warburg be asked to come down and advise the Board as to it.

Governor Harrison wired that his directors kept in present rates until the crop moving and export was practically finished; that open market rates were high and increasing, and that if his bank did not increase rates it would be flooded with acceptances and the proceeds would feed the stock market.

The Board voted to prepare a draft of regulation.

C.S.H. said Governor Young had not been treated courteously by the New York Bank, as he had told Harrison the Board would consider acceptance rates at the Open Market Committee meeting on Monday.

Governor Young stated that Harrison had told him that his directors might have to act before Monday.

The Board found that the New York Bank had notified the other Federal reserve banks yesterday of the change in rates, so they were now in effect and could not well be suspended.

The Board all agreed to this, although Mr. James said in his opinion the rate should not have been increased.

15 Diary 122 (192).

Governor Young said he did not feel that he had been treated discourteously, but he must, perhaps unconsciously, have felt so, for he gave notice that in a week he would introduce a resolution that no Federal reserve bank should invest more than a fixed percentage of its assets in Government securities. In discussing the proposed regulation, Governor Young wished to call the attention of the Federal reserve banks to a regulation passed in 1926 as to notice of rate changes.

Mr. Platt showed, however, that this applied only to discount rates.

Dr. Miller said we ought to enact a regulation specifically as to acceptance buying rates, to which C.S.H. agreed, if any action was to be taken.

C.S.H. said such a regulation should be drawn so as to be applicable only in the future, so as not to imply that New York was being punished for past unauthorized action, for in his opinion, New York was within its legal rights in what it did, barring, of course, any question of due courtesy.

15 Diary 123 (193).

January 5, 1929:

Mr. Warburg came before the Board, and said he thought the fixing of a minimum and maximum buying rate was sufficient; that he approved New York's action in increasing rates, as it would provide a better distribution, although the great part of the benefit would go to foreign central banks which would invest in them because of remission of income tax, but that it would also broaden the domestic market.

He agreed with Governor Young that the proceeds of acceptances filter into the stock market more slowly than proceeds of the purchase of Government securities.

Warburg favored the continuance of steady pressure through discount rates which ought to be increased, and also through higher rates for acceptances. He said that, wholly apart from the question of inflation, the New York Bank had a right to increase acceptance rates to ward off a flood of acceptances.

15 Diary 124, 125 (193).

January 7, 1929:

The Board discussed with the Open Market Committee the credit situation, but the Committee asked for no approval of any policy. Governor Harrison, however, said the Committee should be given discretion, as otherwise there was no reason for having such a Committee.

15 Diary 126 (193).

September 30, 1929:

The Board met to consider report of Open Market Investment Committee. Governor Young presented draft of letter authorizing Committee, as recommended by it, to buy not over 25 millions per month of short term Government securities, this not to involve any change of policy of Board in favor of easing through the purchase of bills.

Mr. Cunningham offered a substitute to the effect that the Board still favors easing through acceptances, and recommends lowering of bill rates to bring them into harmony with those Federal reserve banks still having a 5% discount rate, and favoring holding in abeyance of the question of the purchase of Government securities.

All of the Board felt that more Federal reserve credit was needed to meet seasonal demands.

C.S.H. said that if Mr. Cunningham would change his motion to the effect that if the easing through bills failed that he would then favor purchase of short term Government securities, he would vote for it.

Secretary Mellon and Governor Young said this was just what the letter meant.

C.S.H. said he agreed with this, and should vote for the Governor Young letter.

Cunningham's motion was lost.

Dr. Miller not voting.

Governor Young's letter was then approved, - Dr. Miller and Cunningham voting No.

16 Diary 172, 173 (211).

October 29, 1929:

The Stock Market went to pieces yesterday.

Governor Young said he had been in consultation with Governor Harrison last night and this morning. Governor Harrison told him his directors had voted to purchase and that he had purchased, or arranged to purchase, something over 50 millions of Government securities; that these purchases were made known in the morning before the call loan rate was announced.

The question before the Board was whether or not to approve this purchase. It was not clear whether any of these purchases had been approved by the Open Market Committee, and C.S.H. assumes they had not been, but that they had been bought by New York for its own account.

Governor Harrison told Governor Young his directors authorized him to buy without any limitation.

All agreed that the Open Market Committee could have bought these under its authority to buy 25 millions per month, if this authority were cumulative, which the Board did not decide.

James said New York, by its action, had broken the Open Market agreement, or, as he called it, the Gentlemen's agreement.

Governor Young said that in the absence of a regulation, which the

Board had never enacted, the New York Bank had the right to purchase Government securities. Most of the Board agreed to this.

C.S.H. and Governor Young pointed out that Governor Strong had always claimed to have this right in an emergency, notwithstanding the open market agreement.

Wyatt said it might be claimed that morally the New York Bank had broken the agreement, but the Board could not interfere unless under some regulation. On the assumption, not settled, that New York had this right, the question arose whether the Board should or should not approve the purchase.

Most of the Board felt that as the purchase had been made, the Board was not called on to approve or disapprove, and that the only question was as to enacting a regulation for the future.

Dr. Miller suggested a resolution covering the above.

Dr. Miller criticises the purchase severely. He said the banks should have been forced to rediscount; that the action of New York in announcing the purchase before the call loan rate was announced, making it 5%, indicated a desire to help the stock market rather than the general credit situation.

All agreed there was plenty of Federal reserve credit outstanding, and that the real question was whether the purchase was wise as a psychological matter to prevent a temporary financial upset in the market.

James moved that New York had broken the open market agreement of 1923, and that Wyatt draw up a regulation for the future.

C.S.H. offered a substitute to the effect that the purchase having been made, the Board was not called on either to approve or disapprove it; that as some members were not satisfied with the way the New York bank handled the situation, Wyatt should be called upon to prepare a draft of regulation for the future. The matter went over.

16 Diary 187 to 191 (213).

October 30, 1929:

The Board took up the question of a regulation covering purchases of Government securities.

Dr. Miller favored it but not at this time, as the crisis was not yet over. He said we could easily recapture in the future money paid out in the purchase of Government securities.

16 Diary 195, 196 (213).

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bd

Date December 1, 1930

To Mr. Hamlin

Subject: extracts from weekly reports. FR bank N.Y.

From Mr. Goldenweiser

E.A.G.

GPO 2—8495

In accordance with your recent request, I am sending you extracts from the monthly reviews of the Federal Reserve Bank of New York during the latter part of 1928 and a weekly statement of the earning assets of that bank.

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QUOTATIONS FROM THE MONTHLY REVIEW OF CREDIT AND BUSINESS CONDITIONS

OF THE FEDERAL RESERVE BANK OF NEW YORK

August 1, 1928

At the close of July money rates were distinctly higher than at the beginning of the month. Rates for commercial paper and bankers acceptances and yields of Government securities were from a quarter to a half of one per cent higher than in the latter part of June and at least one per cent higher than at this time last year. Bank rates to commercial customers, however, showed only moderate advances.

While increases during the course of the month (July) of one-half of one per cent in discount rates of seven of the Federal Reserve Banks have been an influence in the direction of higher rates, firmer money conditions are a logical outcome of the banking situation. Specifically, higher rates have reflected an increasingly vigorous effort by the banks of the country to correct an overloaned position.

Principally because of gold exports of over $500,000,000 since last autumn, and in smaller degree because of Federal Reserve sales of securities and increases in the volume of credit, the banks have found it necessary to borrow increasingly large amounts from the Reserve Banks to maintain the minimum reserves required by law. An inspection of the balance sheets of the banks shows an increasing discrepancy between their deposits and their loans and investments. Decreases in deposits in recent months have not been compensated fully by decreases in loans and investments, and the banks have been making up the difference by borrowing from the Federal Reserve Banks. By the end of June this borrowing mounted to over one billion dollars and has since remained near that figure. This is the largest amount of member bank borrowing since 1921.

Conservative bankers are not content to continue long in a position where they can balance their books only by borrowing money. While funds from the Reserve Banks are available to meet seasonal and unusual needs, it is not regarded as sound banking for a bank to be continuously dependent upon the use of such funds. In conformity with these principles and in anticipation of autumn credit and currency requirements many member banks have in recent weeks begun to take steps to repay the Reserve Banks.

September 1, 1928.

(Quoted from September Bulletin of the Federal Reserve Board)
Total Reserve Bank credit outstanding in the third week of August averaged $1,470,000,000, showing an increase of $370,000,000 over the corresponding period in 1927. This increase in Reserve Bank credit was brought about

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by a loss of $467,000,000 from the country's stock of monetary gold, offset in part by a decrease of $107,000,000 in the demand for currency. Changes for the year in other factors in the Reserve Bank position have been of relatively minor importance.

... With total reserves amounting to $2,761,000,000 the Reserve Banks .. have more than $1,000,000,000 in gold above their legal requirements. This relatively large amount of surplus gold reflects the fact, however, that the volume of eligible paper at the present time is between $400,000,000 and $500,000,000 larger than the average amount for the preceding five years, as the result of the unusually heavy indebtedness of member banks. If member bank borrowings declined to a more usual level, gold would have to be used to replace the liquidated eligible paper as collateral with the Federal Reserve Agents, and this would reduce the amount of surplus gold to between $500,000,000 and $600,000,000, or a little more than was exported during the past year.

(Regular monthly material)
The supply of new bills appearing in the market declined substantially in August. Dealers' sales continued to be principally to foreign account buyers, but there was some increase in domestic buying, and distribution was wider than in several months.

October 1, 1928

... Thus far in 1928 there has been little evidence of commodity price inflation or accumulation of inventories, and, although the reserves of the Federal Reserve System have declined materially, they are still well above minimum requirements; so that the Reserve banks are still in a position to supply reserve funds for necessary credit demands.

The present high rates on security loans reflect the extraordinary demand for funds for this purpose and also the effort of banks generally to correct an overloaned position by diminishing those loans which do not bring them paper eligible for rediscount and as to which they do not feel the same obligation as in the case of loans to their commercial customers.

... Seasonal increases in credit and currency, as in previous years, have caused a considerable increase in the demand for reserve funds, and this demand as usual has been met by the Reserve Banks. The increase in loans and resulting deposits, increases the reserve requirements of member banks, and payments of additional currency into circulation constitute a heavy drain on bank reserves during the last four months of each year. There is, consequently, a substantial increase in the amount of Reserve Bank credit required to keep the reserve balances of member banks at the required level during the autumn months. The average amount of this seasonal increase in Reserve Bank credit, and the manner in which it has been supplied during the past six years is indicated in the following table:

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(Monthly averages of daily figures; in millions of dollars)

1922-1927	Increase over August Average		
	Total bills and securities, after adjustment for changes to offset gold movements	Amount supplied through bills purchased	Amount supplied through discounts and securities
September	+ 86	+ 32	+ 54
October	+155	+ 83	+ 72
November	+197	+139	+ 58
December	+312	+181	+131

These figures show that the amount of Reserve Bank credit required in September during the past six years has averaged about 86 million dollars larger than in August, and that further increases have occurred in each subsequent month to the end of the year; so that in December the amount of Reserve Bank credit in use has averaged more than 300 million larger than in August, after allowance for changes to offset gold exports and imports. In two years this seasonal increase has exceeded 350 million. It will be noted that a considerable part of the additional Reserve Bank credit is normally supplied through purchases of bills (bankers acceptances). These purchases are not made on the initiative of the Reserve Banks, but the Reserve Banks stand ready to take, at established buying rates, the bills offered by bill dealers and banks. The Reserve Banks in this way purchase the surplus of bills which the market is unable to absorb. This support, which is somewhat similar to that given to the London bill market by the Bank of England, makes possible the maintenance of a bill market in this country.

Every autumn the volume of acceptances outstanding is increased materially through the creation of new bills largely to finance the storage of crops and the export of cotton and other agricultural products. As this increase occurs at the time of year when the demand on banks for currency and credit is heaviest, it is essential to the existence of a bill market in this country that the Reserve Banks should stand ready to purchase bills when they come into the market more rapidly than new buyers appear, or when banks find it necessary to reduce their holdings of bills in order to obtain needed reserve funds. These bill purchases by the Reserve Banks are made at rates established by them, which are adjusted to conform closely with the rates at which bills are sold in the open market.

In this way the Reserve Banks each year assist in the financing of autumn crop movements and trade. The amount of bills purchased by the Reserve Banks depends principally upon the amount of bills created and the condition of the market for them. This year the volume of bills held by the Reserve Banks has increased considerably since the early part of August in accordance with

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the usual seasonal tendency. ... This increase has followed much the same course as in the past two years, though, with an unusually large amount of bills created and a firm money position, there has latterly been a tendency for the Reserve Banks to get larger amounts of bills.

The mechanism of bill purchases by the Reserve System provides a semi-automatic way in which a considerable share of autumn requirements for reserve credit are met without increasing bank indebtedness at the Reserve Banks.

... Following the general reduction on August 31 of 1/8 per cent on all maturities of bills, the rate level remained unchanged throughout September, except for the 5 and 6 months maturities, which became established around the middle of the month at 4 7/8 per cent, as against a previous range of 4 7/8-5 per cent. Coincident with the advent of the crop moving season, the supply of new bills coming into dealers' hands increased considerably, and was materially in excess of the rather moderate investment demand. As a result of this condition offerings of bills to the Reserve Banks increased, bringing Reserve Bank holdings slightly above last year at this time. Dealers' portfolios of bills which had been comparatively small in August also increased about 50 per cent during September.

November 1, 1928

... The autumn increase in currency circulation has been at least as large as the seasonal movement of other years, and in the third week of October the volume of currency in circulation in the United States was about 150 million dollars above the seasonal low point in the latter part of July. This has constituted a dollar-for-dollar drain on the reserves of member banks.

Bank loans other than those secured by stocks and bonds, the seasonal fluctuations of which reflect mainly the variations in agricultural and commercial requirements, have shown less than the usual increase from July to October, both in this district and in the country as a whole. This may be due at least partly to the fact that these loans increased, instead of showing the usual decrease, during the summer. There has been a moderate increase during the past month, however, and the accompanying increase in deposits has caused some increase in the required amount of member bank reserves.

Both this increase in reserve requirements and the additional currency demand have been met by the reserve funds paid out by the Reserve Banks through seasonal purchases of acceptances. The amount of acceptances offered to the Reserve Banks has been unusually large this season--sufficiently large so that member banks have been enabled to use part of the proceeds to reduce their indebtedness at the Reserve Banks during the latter part of the month. Accompanying this reduction in member bank indebtedness, there has been a slight easing in the money market.

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... The supply of bills coming into the market continued large throughout the entire month of October, reflecting the usual seasonal increase in drawings to finance the movement of cotton and other agricultural commodities. Investment demand for bills was considerably smaller than the available supplies until after the middle of the month when more active foreign buying appeared, and dealers' portfolios at the end of the month were somewhat larger than at the end of September. Reflecting the creation of large amounts of new bills, dealers' offerings to the Reserve Banks also were heavy, and the System's portfolio of bills showed a constant increase throughout the month and on October 24 amounted to about 400 million dollars, or 100 million more than the holdings at this time last year. Ninety day unindorsed bills continued to be offered at 4 1/2 per cent, unchanged since August 31, and there was no change in rates for other maturities until late in the month when 5 and 6 months' bills were reduced 1/8 per cent due to a shortage in the supply of these particular maturities.

December 1, 1928.

... Money rates were slightly easier in November partly because of gold imports during the first three weeks of the month, and partly because of a somewhat smaller demand for additional Reserve Bank credit than is usual at this time of year, and further increases in the acceptance holdings of the Reserve Banks, due to the large volume of bills outstanding and the generally high level of interest rates. As a consequence, member banks were enabled to repay a part of their borrowings from the Reserve Banks, and were in a position to lend a little more freely. An increasing proportion of commercial paper was sold in the open market at 5 1/4 per cent, as compared with a prevailing rate of 5 1/2 per cent in October; acceptance rates remained steady. Yields on short-term Government securities declined about 1/2 per cent, in some cases to under 4 per cent in the third week of November, but later advanced somewhat. Apparently reflecting a continued strong demand for additional loans, rates on security loans showed no material change from those of October and the tendency at the end of the month was toward higher levels.

January 1, 1929

The call money market in December was unstable to an unusual degree, due to wide fluctuations in the demand for loans, together with a limited supply of funds. The advance in the call loan rate to 12 per cent early in the month reflected a rapid increase in the demand for brokers' loans with no ready source of additional funds. New York City banks were heavily in debt at the Reserve Bank and were not in a position to make additional loans, and it was not until drastic advances in the rate had been made that a volume of funds sufficient to meet the demand was attracted from other sources.

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The decline to 6 per cent which followed within a few days was partly the result of a rapid liquidation of about 200 million dollars of brokers' loans, which relieved somewhat the tension in the money market. Additional factors in the easier money condition around the middle of the month were a return flow of gold from Canada, a moderate inflow of funds from other districts such as occurs frequently in the second week of the month, and the temporary excess of Government redemptions of maturing securities and interest payments over income tax and other collections.

Subsequently there was a steady drain on the commercial banks, due in part to Treasury collections of taxes and withdrawals from depositaries, and in part to the usual heavy withdrawals of currency from the banks which mark the culmination of the Christmas trade. The loss of reserves sustained by the banks in these ways caused a rapid increase in their dependence upon the Reserve Banks, and although the demand for loans remained smaller than in the first week of the month, call loan rates again advanced substantially.

... The additional amount of currency drawn into circulation during recent weeks has been larger than usual, and the total amount in circulation has risen closer to the level of a year previous than in more than a year. The amount of Reserve Bank credit in use has shown an increase somewhat smaller than in 1927, when a considerable amount was required to offset the rapid outflow of gold, but at least equal to the usual seasonal increase, and has reached the highest level since 1921.

During the next four weeks approximately 300 million dollars of currency will in normal course flow back to the banks and be redeposited by them with the Reserve Banks for credit. In view of the large volume of member bank borrowing it is expected that the funds derived from these re-deposits of currency will be used, not for the expansion of loans, but for the repayment of indebtedness at the Reserve Banks.

The recent tendency toward rapid expansion of member bank loans continued in the first week of December, and on December 5 the total loans and investments of weekly reporting banks in this district were more than 300 million dollars higher than at the middle of November. Nearly all of the increase was in loans to security brokers. The expansion was checked by a large increase in the indebtedness of these banks at the Reserve Bank, and during the liquidation of brokers' loans which occurred in the second week of the month, New York City banks withdrew more than 200 million dollars of their own funds from the call money market. Little change occurred subsequently until near the end of the month, when year-end withdrawals of funds by out-of-town banks and others caused the usual heavy temporary demand on the New York banks for credit.

... The demand for American acceptance credits has remained large during the past month. The outstanding volume of bills exceeded $1,200,000,000 on November 30, and the supply continued in large volume throughout December. Investment demand, coming largely from foreign banks, also increased substantially, with the result that the bill holdings of the Reserve Banks were reduced temporarily from the high level of December 12 to $453,000,000, on December 19.

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See B4

November 19, 1930.

Federal Reserve Bank of New York.
Reports of Open Market Investment Committee, etc.

(000 Omitted)

1928	Total Earning Assets	Government Securities	Bankers Acceptances	Bills Discounted
Week ending				
Aug. 22	1,428,946	- 143	-10,585	+43,912
Aug. 29	1,433,026	- 68	- 2,207	+ 1,327
Sept. 5	1,474,288	+ 48	- 9,249	+41,344
Sept. 12	1,503,770	+15,524	+13,397	-10,871
Sept. 19	1,560,329	+ 23	-28,932	+24,587
Sept. 26	1,507,797	+ 733	+14,960	-83,067
Oct. 3	1,571,078	+ 52	+37,514	+15,152
Oct. 10	1,556,462	- 2,561	+23,441	-32,516
Oct. 17	1,551,864	- 463	+37,828	-57,592
Oct. 24	1,548,182	- 3,789	+26,264	-23,883
Oct. 31	1,603,476	- 6,142	+26,627	+20,344
Nov. 7	1,632,447	- 3,397	+23,002	+25,119
Nov. 14	1,558,133	- 403	+21,641	+99,851
Nov. 21	1,514,555	+ 7,998	+18,545	+57,593

September 26, 1928:

Governor Case to Governor Young.

Encloses copy of letter to Open Market Committee giving up-to-date information.

No occasion to buy for System account.

Renewal of speculation on wide scale.

Business has all the funds it needs.

Table showing average amount of Federal reserve credit required in the last four months of the past six years:

	Increase in F.R. Credit From August after Allowance for gold movements	Amount Supplied through Bills Purchased	Balance met by Discounts or Securities
	(In millions of dollars)		
August	0	0	0
September	+ 89	+32	+57
October	+ 160	+83	+77
November	+ 205	+139	+65
December	+ 322	+181	+141
September 1928 to date...	+ 74	+ 31	+ 43

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The above figures show this autumn followed closely the precedent of previous years.

If it continues to do so, will only require about 35 millions of discounts above the September average to meet October needs.

That increase need not disturb business.

December need due to Christmas currency temporary, and banks willing to borrow to meet it without increasing pressure on money market.

The October peak is the one likely to cause the maximum of strain, and that should not be severe.

We shall get usual increase in bills this year.

Prospects are for a considerable increase in the volume of bills created; under present money conditions there will probably be few buyers outside the reserve banks to absorb the increase.

We are likely to get most of the additions to the amount now outstanding.

This being the case, it seems reasonable to believe that the seasonal requirements of business will be met without any further substantial firming of commercial money rates.

Necessary to keep in mind we may have to buy some short Governments to carry out the program indicated above, and we should be ready to do this without hesitation.

Encloses:

<u>Proposal for Discriminatory Rates for Bills</u>

Two possible methods:

1. Reduce buying rate for bills ¼% from present point so that 90-day bills would be purchased at 4¼% rather than 4½%.

2. Retain present 4½% rate on 90-day bills without increasing during the autumn. An increase of about ¼ of 1% usually occurs; the Reserve System to buy bills freely. The rate is already lower, relative to other rates, than usual for this time of year.

Either one of the above would encourage the creation of bills and bring a larger volume into the Reserve System than normally.

It is recommended by the officers that the second proposal be followed, namely, a 4½% buying rate for 90-day bills, the Reserve System to stand ready to take bills freely as has been done during the past few weeks.

This proposal preferable to lowering the buying rate for bills for the following reasons:

1. Lowering the bill rate would attract wide-spread comment and probably encourage the increase in credit for speculative uses which has been resumed. The psychological effect of such action might be nearly as great as reducing the discount rate or buying securities.

2. A 4½% rate is low enough in relation to other rates to attract a large volume of financing into the acceptance market, and we understand from dealers and others that with this rate the seasonal increase in bills is likely to be unusually large. It is doubtful whether a lower rate would bring out many additional bills.

3. It is probable that a 4½% rate would draw into the reserve banks a sufficient amount of bills so that the autumn requirements for Federal reserve credit will be met almost entirely through that channel unless unexpected demands arise.

September 20, 1928.

Table annexed showing actual increase in Federal reserve credit over August average, change in gold stock, change in Federal reserve credit if there had been no change in gold, amount of Federal reserve credit supplied through bills purchased, and the amount to be supplied through discounts and securities, from August, 1922 to December, 1927.

<u>October 8, 1928:</u>
Governor Case to Governor Young.

Not material.

<u>October 10, 1928:</u>
Governor Case to Governor Young.

Our records indicate that the policy of supplying autumn credit requirements through bill purchases has so far been entirely successful.

Sends revised copy of his tabulation showing daily average changes in reserve bank credit, and the amount supplied by bill purchases, discounts and securities.

The average amount of Reserve Bank credit needed in September was practically identical with the average for the past six years, but even without a reduction in our buying rates, the amount of bills we acquired was 50% larger. Of the remaining increase in Reserve Bank credit, a considerable part took the form of increased holdings of United States securities, largely explained by the Treasury overdrafts around the 15th; so that the average amount of member bank borrowing at the Reserve Banks for the month of September was practically the same as in August.

This was probably an important factor in preventing a further rise in commercial borrowing rates during September, and the heavy buying of bills undoubtedly was mainly responsible for keeping bill rates low compared with other money rates, and made possible a much larger volume of financing through the bill market than would have been the case otherwise.

During the first week of October, the increase over August in Reserve Bank credit outstanding has been somewhat below the six-year average, and the increase in bill holdings has reached such large proportions as to supply almost the entire amount.

The security holdings of the System are somewhat above the August average, and discounts are slightly smaller.

It appears probable that we shall continue to have a large volume of bills offered to us during October and November and that our bill holdings may increase faster than the demand for Reserve Bank credit. If that is the case, discounts for member banks will tend to decline below the volume of August, and money rates are likely to be easier than in recent weeks.

It would not be surprising if the principal effect of this situation were to appear in the call money market.

<u>October 24, 1928</u>:
Governor Case to Governor Young.

.....The situation in the money market seems to be working out much in line with our expectations, as indicated in my letter of two weeks ago.

Bill holdings have continued to increase without a corresponding increase in the total demand for Reserve Bank credit, member bank indebtedness has been reduced, and the call money market is temporarily easier.

The average demand for Reserve Bank credit during the month of October will show somewhat less than the usual increase compared with August. Currency requirements have been running about the same as in previous years, but commercial borrowings have not shown so large an increase as usual, possibly due to the relatively high level of such borrowings during the summer.

At the present time the total amount of Reserve Bank credit outstanding is running somewhat over $100,000,000 higher than the August average, and the peak of seasonal requirements until the holidays, appears to have been passed.

Bill holdings, however, are now more than $200,000,000 higher than the average for August, and the average for the month of October will show a larger increase than in any previous year.

Consequently member bank borrowings have declined to the lowest average level since May, both in New York City and for the country as a whole.

A comparison of the increase in our bill holdings with the increase in bills outstanding indicates that we have acquired all of the new bills that have been created and more too. Additional bills we have purchased have come largely from foreign holdings, and there is at least a possibility that some of the proceeds have gone into "the street."

While the demand for loans for speculative purposes shows no sign of abating, it is encouraging to note that member banks in the main are using the additional funds they are receiving, to repay indebtedness rather than to increase their loans.

The continued increase in brokers loans placed by New York City banks has not in any degree represented an increase in the loans for their own account. A part has been for the account of out-of-town banks, which, of course, is in part for the account of others, and most of the remainder has been for the account of customers of New York banks.

The total volume of member bank credit, which we have been inclined to accept as the criterion for our policy, has shown comparatively little increase recently, especially after allowance for the effect of purchases of new Treasury issues of September and October.

However, the prospect seems to be for comfortable conditions in the call money market until December, except for the usual month-end tightening, and it seems likely that after the first of the year member bank indebtedness will be considerably below a billion dollars and money conditions will be easier still.

In view of this situation, the figures on member bank credit will need close watching.

October 25, 1928:

Governor Young to Governor Case.

Acknowledges letter of October 10th.

My colleagues not certain as to last paragraph of your letter. As I understand the paragraph, you desired to point out that our bill holdings were increasing so rapidly that discounts of member banks were beginning to decline and that if this situation continued, its principle effect would be a lowering of the call money rate; in other words, the pressure on speculative credit might be relieved to such an extent that an undesirable situation would develop. This would amount to a reversal of the policy which the System has been following since January and would be a result which I assume you and your associates would not care to have brought about at the present time because of the unusual activity in speculative credit.

*

October 26, 1928:

Governor Case to Governor Young.

Your interpretation of my letter of October 10th states exactly what I had in mind.

It seemed probable then that the increase in our bill holdings would not be accompanied by a corresponding increase in the demand for Reserve Bank credit, with the result that member bank indebtedness would be reduced. As the call money market is always first to reflect any such change, it seemed likely that call money rates would ease somewhat and that, as you have indicated, this would have a tendency to relieve the pressure on speculative credit.

*

The easier tendency in call money did develop, but there has been an apparent reversal during the last day or two. There seems to be no explanation in member bank indebtedness for the 8% money of yesterday and today. The best explanation we have been able to hit upon is that there has been an active demand for new loans, and, as there appears to have been no corresponding increase in the supply from other sources, the New York City banks have had to provide most of the additional funds and have been willing to do so only at a fairly stiff price. Under present conditions, however, it hardly seems to us that an 8% rate can be maintained more than temporarily.

November 20, 1928:

Governor Case to Governor Young.

Not important.

November 23, 1928:
McGarrah to Governor Young.

States that Dr. Miller was at board meeting yesterday when recent report of the Open Market Investment Committee was presented to the board for its approval. After discussion of the report * * * Dr. Miller suggested it might be interesting to the Federal Reserve Board to have a copy of the weekly resolution passed by our directors authorizing the officers to participate in the purchase of securities for the account of the System.

As you will remember, the report of the Committee in August recommended that it should be the policy of the System to purchase Government securities if it should become necessary in order to avoid undue credit stringency. When this report was presented to our directors, they took one vote approving the policy recommended by the committee, and approved by the Federal Reserve Board, and then, in order that the officers might have authority to participate in the purchase of securities taken for account of the System between meetings of the directors, the following resolution was adopted:

> "VOTED to authorize the officers to participate in the purchase in the market of Government securities up to $25,000,000 for the Open Market Investment account if it were deemed necessary by the officers to do so prior to the next meeting of the board of directors in order to carry out the policy recommended at the last meeting of the Open Market Investment Committee, with the understanding, however, that before exercising this authority the officers would consult with at least two of the directors."

Our directors felt that as long as the System policy was to purchase securities, in the event of a possible emergency, the officers should be free to act instantly in the event of such an emergency, even between meetings of our board and executive committee.

Appreciating, however, the importance of determining the emergency which should justify the purchase of securities, as recommended in the report of the committee, our directors felt that, before exercising the * authority given to the officers, at least two of the directors should be consulted. The resolution quoted above is an exact copy of the one approved at each meeting of our directors between the August and November meetings of the Open Market Investment Committee.

This letter also states that Mr. Case presented the report of the Open Market Investment Committee dated November 15th which was read, which report embodied the recommendations of the Committee adopted at its meeting in Washington last week. The New York board voted to approve the report recommending the System policy, with the understanding that the report contemplated the purchase of Government securities only in the event of an emergency. After action was taken upon the report, the directors passed a resolution similar to the one quoted above.

Governor Harrison sends Governor Young a memorandum of the minutes of meeting of Open Market Investment Committee at Hotel Carlton, Washington, 8:30 p.m. Tuesday, November 13, 1928:

The Secretary presented formal report of the secretary to the Committee dated November 12, and a copy of the preliminary memorandum dated November 14th. After reading and discussing these documents and reviewing credit conditions generally, the committee decided informally that it would be advisable to renew the recommendation contained in the last report of the Committee on August 13, 1928, that it should be authorized to purchase Government securities if and when that might become necessary in order to avoid an acute credit stringency. It was understood by the Committee, however, that it would defer preparation of a formal report and recommendation until after another opportunity for a meeting at which Governor McDougal could be present.

Before adjournment, the committee discussed the matter of a possible adjustment of buying rates for bankers acceptances. While it was realized by the committee that it has no formal jurisdiction over the matter of bill rates, which are subject to adjustment by individual reserve banks as provided in the law, nevertheless each Governor present expressed the opinion that it might be advisable for the Federal Reserve Bank of New York
#1 to increase its buying rates for bills of all maturities by 1/8 of 1% in the near future.

At the afternoon session, the Committee voted to adopt the following report to be submitted to the Conference of Governors before formal presentation to the Federal Reserve Board for its action.

"The Committee has reviewed the preliminary memorandum submitted by the chairman in relation to credit and money market conditions of the past year.

"It has given special consideration to the development of conditions since the last report of the Committee on August 13th and to the effect of Federal Reserve policies on the volume of credit and the rates for money during the period of crop movement whose peak has probably now passed.

"The Committee feels that the policy of the System has been substantially effective in providing credit for seasonal agricultural and commercial purposes at relatively low rates and without any abnormal increase in the total volume of member bank loans and investments for this period of the year.

"The Committee is of the opinion, however, that it should still be the policy of the System, if possible, to prevent any unduly rapid or unnecessary further increase in the total volume
#1 of bank credit, although in fact the total loans and investments of all reporting member banks are now slightly below the high

point of May in spite of the usual Fall increase in the demand for credit for crop movement purposes.

"But we are approaching the usual seasonal demand for currency for holiday purposes. This will result in increased borrowings from the Federal reserve banks except to the extent that further gold imports offset the demand for Federal reserve accommodation. It is not possible to estimate the extent of the present gold movement or its ultimate effect upon credit conditions and money rates.

"Already there is some evidence of easier money rates contributed to partly by the inflow of gold and partly by the large increase in the bill portfolio of the Federal reserve banks, each of which has caused a reduction of member bank discounts in the New York district. Some of this increase in the bill portfolio is due to the sale of bills by foreign banks to support their exchanges, which have felt the pressure of high rates in this country.

"But while these conditions appear to have an easier tendency at the moment, nevertheless the uncertainty of the gold movement, the approaching demand for currency, and the usual demand for Federal reserve credit during December suggest to the Committee that the System should still be prepared in the event of an emergency to prevent any undue stringency of credit during this period.

"With all these facts in mind, the Committee renews the recommendation contained in its report of August 13th that it should be the policy of the System to purchase Government securities if and when it might become necessary to avoid an acute stringency.

"The Committee would expect to take such steps as may be needed to carry out this policy, if approved, with the understanding, however, that it would be advisable to have another meeting of the Committee in the event that any substantial change in conditions makes that necessary."

Meeting of the Open Market Investment Committee with Conference of Governors, Thursday, November 15, 1928, at 4 p.m.:

The Secretary read to the Conference the report of the Open Market Investment Committee, as approved at its meeting today. It was duly voted to approve and adopt the report as the recommendation of the Conference to the Federal Reserve Board.

There was an informal discussion of the matter of buying rates for bankers' acceptances, and while no formal action was taken, it appeared to be the general sentiment of the Conference that it might be advantageous soon to increase the buying rates for bills, especially in view of the expansion of the bill portfolio since September in relation to the net increase in the total volume of Federal reserve credit outstanding.

On November 16, Friday, there was a meeting of the Open Market Investment Committee with the Governors Conference and the Federal Reserve Board.

The Secretary presented to each member of the Board a copy of the report of the Open Market Investment Committee as approved by the Conference of Governors, together with copies of the preliminary memorandum dated November 14th and the formal report of the secretary of the Committee dated November 12th. The secretary read the report of the Committee.

In the ensuing discussion it was pointed out that in substance the report involved a continuance of the present policy of the System, except that in the event of a possible emergency the System should be prepared to purchase Government securities in order to avoid an acute credit stringency. This proposal involved no more than a renewal of the recommendation contained in the last report of the Committee dated August 13th, and approved by the Federal Reserve Board. It was the opinion of the Committee that while there had been no occasion to exercise the emergency authority granted in August, and while at the moment there appeared to be a temporary period of ease in money rates, nevertheless in view of the approaching demands for currency for holiday purposes, which normally result in an equivalent expansion of Federal reserve credit, and the uncertainty of the present credit situation, the Committee should have the same emergency authority that was granted to it in August when we were approaching the usual seasonal demand for crop moving purposes.

Preliminary Memorandum for the Open Market Investment Committee. November 14, 1928.

In the summer of 1927 the Federal Reserve System adopted a policy favoring easier money conditions, given effect by the purchase of a moderate amount of Government securities and a reduction in discount rates from 4 to 3½%. The primary purposes of this policy were:

1. To avoid a continued gold import and a serious stringency in world money markets which might have delayed world financial recovery and reacted adversely upon world trade and the trade of this country.

2. To cushion, as far as it could be done by easy money, the business recession which was beginning in this country.

When this policy was adopted, it was recognized that there was danger of stimulating excessive use of credit in speculation.

In general, the results desired from this policy came to pass. Foreign exchanges, close to the gold import point, were almost immediately strengthened , thus avoiding monetary stringency in world markets, and our foreign trade was maintained at high levels.

The gold and the dollar exchange which other countries acquired in the summer and autumn of 1927 placed them in a position of such strength that they have since that time been less dependent upon conditions in this country.

Although the recession in business activity continued until the end of the year and there was some unemployment during the winter, the recession was not serious and was followed by a quick recovery which was probably aided by easy money.

The strengthening of the exchanges proceeded to such an extent that in the autumn of 1927 gold began to move from New York on exchange transactions. In addition, there was a large movement of gold to France in connection with that country's preparations for the return to the gold standard, which movement would probably have taken place regardless of the exchange position. Altogether net gold exports totaled over $500,000,000.

During the early part of this gold outflow, securities were bought to prevent tightening of the market. Additional securities were purchased to offset sales in August and September of sterling which had been acquired earlier in the year by a sale of gold.

* As autumn advanced, it became evident that credit was expanding more rapidly than the country's business required.

* To meet this, and in view of the fact that the purposes of the easy money policy had been largely accomplished, the purchase of securities was discontinued in November, although the gold movement continued.

In January, the Reserve banks began selling securities, necessity for which had been forecast in the Open Market Committee report to the Governors Conference in October.

The effect of these sales, together with gold exports, was to lessen the seasonal liquidation of member bank borrowings and largely to prevent the usual softening of money rates in January.

The sales of securities were followed in February by a general advance in discount rates, which with later advances are shown in the accompanying schedule of discount rates of the different Federal reserve banks.

For a time speculative activity subsided somewhat, and reporting member bank loans and investments decreased moderately in January and February.

A new outburst of speculation on a larger scale than ever before occurred in March and April, which led to a renewed and more rapid increase in bank credit. Within a period of ten weeks the loans and investments of reporting member banks increased a billion dollars, an increase nearly equal to a full year's growth under ordinary circumstances.

The sale of securities from the System Special Investment Account was resumed in the latter part of March and continued more rapidly in April, although the market for Governments was so weak that it was difficult to sell such securities. As securities were sold, open market money rates advanced. But as a consequence funds were attracted from other districts, and there was increased discounting at the reserve banks in those districts. This flow of funds to New York largely offset the effect of security sales in New York, so that the indebtedness of New York City banks showed for some time no material increase. Moreoever, as money became tighter, the general distribution of bills was retarded and the Federal reserve portfolio declined less than usual at this season.

In this situation, funds coming into the money market from sources outside of New York were supplemented by a substantial increase in the loans of New York City banks for their own account.

It was not until the second advance in Reserve bank discount rates was made effective in the latter part of April and in May that expansion of credit was halted. Except for a temporary rapid increase early in July which was followed by a further rise in discount rates in all but four western districts, the loans and investments of New York City banks tended to decline from May to August, and in other districts the expansion was checked.

Although the activity of the security markets has again increased to new high levels during the past two months, and prices have advanced higher than ever before, a considerable part of the required credit has been obtained from sources other than member banks, and the total loans and investments of the weekly reporting banks have remained below the May levels.

The increase in brokers loans for account of others represents, however, a potential expansion of bank credit because the banks would be obliged to take over loans called suddenly by these other leaders.

As the season of autumn currency and credit requirements approached, it was recognized that the steady rise in money rates, which had followed the gold outflow and Reserve bank sales of securities and rate advances, constituted a danger to the business of the country if it proceeded much further.

Gives comparison of rates prevailing in August with those of a year previous, showing extent of increase.

While the largest advances had occurred in rates on "street loans", the advances in commercial rates had been substantial and the tendency was toward still higher rates.

It was pointed out at the July meeting of the Committee that high commercial money rates in past years had been followed frequently by a recession in business activity after an interval of six months to a year, attributable mainly to the curtailment of building activity and to the partial stoppage of new capital for business enterprises.

To prevent money conditions from becoming more stringent during the season of autumn trade and crop moving, the purchase of Government securities was considered but it was felt that such action would be followed immediately by a new outburst of speculative demand for additional credit which might absorb the credit extended for business uses.

It was finally decided that the policy of maintaining bill rates at their current levels and purchasing freely bills offered by banks and dealers would probably put into the market sufficient Federal reserve funds to meet autumn credit needs, thus preventing a further rise in commercial money rates.

Effects of 1928 Bill Purchases.

Due to an extraordinarily large volume of bills in the market and the presence of few other buyers of bills because of the low level of acceptance rates relative to other open market money rates, the volume of acceptances offered to the Reserve banks for purchase has been much larger than in any previous year and has exceeded the seasonal increase in the demand for Federal reserve credit, thus tending to cause a reduction of about 100 million dollars in member bank indebtedness and some easing in money rates at a time when the demand for credit for speculative use is as strong as ever before.

Unless conditions change it seems probable that money rates will continue at present levels, with call money between 6 and 7%, for a few weeks before the holiday currency requirements are encountered. Further, it seems likely, if present tendencies continue and if the bill portfolio continues large, that the total indebtedness of member banks after the return of currency from circulation in January will be reduced temporarily to 750 millions or less, and the indebtedness of New York City banks may be reduced to an extent that would be an incentive to expansion of loans by these banks.

Credit Policy.

Reserve banks may consider three methods to avoid too easy money:

1. Increase bill buying rates.
2. Sale of securities.
3. Dealing directly with member banks.

The question to which the open market should give consideration is whether sales of Government securities should be made either immediately or after the first of the year, if it seems wise to continue the policy pursued in recent months.

As bearing upon the question of continuing the present policy directed toward high money rates, especially for speculative use, the outcome of the present situation would appear to depend mainly on three factors and on the timing of these factors:

1. Culmination of expansion of credit for stock speculation.
2. Effect of present money rates on the volume of business.
3. Effect of present money rates on world money rates and world trade.

1. It is impossible to set a date when stock speculation may culminate. It is impossible to pass judgment now upon the extent to which the recent movement is upon a sound economic basis and the extent to which it represents boom psychology. The question can only be settled by time and the test of high interest rates.

* 2. Although rates on commercial loans are $1\frac{1}{4}$ to $1\frac{1}{2}$% higher than a year ago, and higher rates usually react upon business, there is as yet no evidence that these rates or the condition of the money market have been found prohibitive to the issuance of all necessary short-term credit for agricultural and business purposes. Industrial activity showed a rapid recovery early in the year and has since maintained a high level, and commodity prices have risen moderately.

The high money rates have caused a substantial decline in the flotation of long-term bond issues, but domestic corporations have continued to obtain large amounts of new capital, as conditions have been favorable to obtaining larger amounts through stock issues than in any previous year.

Gives table as to new capital issues of domestic corporations.

3. Present money rates have plainly had a depressing effect on foreign exchanges and have retarded the flotations of foreign securities in the market. A relatively small return flow of gold to this country has occurred during the past two months, and some of the European exchanges have required support to prevent larger gold shipments. Nearly all countries are in a much better position than a year ago to protect their exchanges, but present money rates in this country, if long continued, would probably force higher rate levels in other markets. The effect of somewhat higher rates on world trade and new foreign issues in this market are compared below:

(Table given).

There does not appear recently to have been any change in the situation which would suggest the desirability of discontinuing the policy pursued since the early part of 1928.

November 27, 1928:
Governor Young to McGarrah.

The Board is in harmony with the conclusions of the Open Market Committee report dated November 15, 1928, that for the present at least the policy should be one of "marking time."

The Board further observes that the Committee suggests the System should be prepared in the event of an emergency, to prevent any undue stringency of credit, and that it should be the policy of the System to purchase Government securities if and when it might become necessary to avoid such credit stringency.

If the Board approves this recommendation it will give approval to a policy of buying an indefinite amount of Government securities. It does not care to give this approval for three reasons:

1. It would not be in harmony with expressions and actions already taken by certain reserve banks.

2. It is not prepared at this time to say definitely that an emergency should be handled by the purchase of Government securities, or whether other avenues should be resorted to.

3. It believes that if any real emergency develops in the country, it might be advisable to have another meeting of the committee.

During the interim, however, adjustments of temporary credit situations, which would not be in the nature of serious emergencies, may be advisable and the Board will hold itself in readiness to act promptly upon written or telephone request from the committee in an amount not to exceed 25 million dollars.

November 28, 1928:
Governor Case to Governor Young.

Not material.

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NUMBER AND RESOURCES OF MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM ON SEPTEMBER 24, 1930,
BY CLASSES OF BANKS

	Total	Central reserve city banks	Other reserve city banks	Country banks
All Member Banks				
Number of banks	8,246	68	421	7,757
Total resources	$46,153,113,000	$14,747,265,000	$15,676,270,000	$15,729,578,000
Average resources	5,597,000	216,872,000	37,236,000	2,028,000
National Banks				
Number of banks	7,192	32	299	6,861
Total resources	$28,332,934,000	$6,474,702,000	$9,825,602,000	$12,032,630,000
Average resources	3,940,000	202,334,000	32,861,000	1,754,000
State Bank Members				
Number of banks	1,054	36	122	896
Total resources	$17,820,179,000	$8,272,563,000	$5,850,668,000	$3,696,948,000
Average resources	16,907,000	229,793,000	47,956,000	4,126,000

DIVISION OF BANK OPERATIONS
JANUARY 2, 1931

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Mr. Hamlin

Sen NH

Not for publication

December 27, 1930

To Federal Reserve Board

From Division of Bank Operations

Subject: Condition of all banks in United States on September 24, 1930.

Total loans and investments of all banks in the United States (including private banks under state supervision) as reported to the Federal Reserve Board as of September 24, 1930, aggregated $57,590,000,000, a decline of $518,000,000 since June 30 and of $1,245,000,000 since October 4, 1929. Member banks reported a decline of $183,000,000 during the quarter and of $442,000,000 during the year, while nonmember banks reported declines of $335,000,000 during the quarter and $804,000,000 during the year.

Loans of all banks declined $903,000,000 during the quarter and $2,486,000,000 during the year. Declines for the year were reported in all districts and for the quarter in all districts except San Francisco. As contrasted with the decline in loans, there was an increase of $385,000,000 in investments during the quarter and of $1,241,000,000 during the year ending September 24, increases being reported for all districts during the quarter and for all districts except St. Louis, Minneapolis, Kansas City and Dallas for the year.

The figures indicate that the same general trends in both loans and investments prevailed at nonmember banks as at member banks although the decline in total loans and investments was nearly twice as large in the aggregate and about three times as great relatively at nonmember banks as at member banks. The figures also show that the declines took place largely in the country districts.

Deposits of all banks declined $2,170,000,000 during the quarter and $2,396,000,000 during the year while borrowings declined $160,000,000 for the quarter and $950,000,000 for the year. The larger decline in deposits and borrowings than in loans and investments is due principally to the fact that exchanges for clearing house for which depositors had been given credit but which had not been charged to the drawers accounts were substantially lower on September 24 than on October 4, 1929 and June 30, 1930.

The summary table attached hereto shows the loans and investments, deposits and borrowings of all banks and of member and nonmember banks by districts on September 24, 1930 in comparison with the immediately preceding quarterly call and the October call of last year.

(St. 6843)

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NOT FOR PUBLICATION

LOANS, INVESTMENTS, DEPOSITS AND BORROWINGS OF ALL BANKS IN THE UNITED STATES, BY DISTRICTS, ON SEPTEMBER 24 AND JUNE 30, 1930 AND OCTOBER 4, 1929.

(In millions of dollars. Figures for nonmember banks are for the dates indicated or nearest dates thereto for which available)

Federal Reserve District	All banks			Member banks			Nonmember banks		
		Change since -			Change since-			Change since -	
	Sept. 24 1930	June 30 1930	Oct. 4 1929	Sept. 24 1930	June 30 1930	Oct. 4 1929	Sept. 24 1930	June 30 1930	Oct. 4 1929
LOANS AND INVESTMENTS									
Total	57,590	- 518	- 1,245	35,472	- 183	- 442	22,118	- 335	- 804
Boston	6,871	+ 9	+ 5	2,583	- 8	- 51	4,287	+ 17	+ 56
New York	19,280	- 438	+ 445	12,093	- 292	+ 329	7,188	- 145	+ 116
Philadelphia	4,409	- 11	- 96	2,737	+ 23	- 18	1,672	- 34	- 78
Cleveland	4,893	+ 53	- 71	3,530	+ 51	+ 32	1,364	+ 3	- 102
Richmond	2,391	- 8	- 110	1,206	+ 1	- 93	1,185	- 9	- 17
Atlanta	1,505	- 22	- 213	1,053	- 7	- 96	453	- 16	- 117
Chicago	7,627	- 28	- 439	4,967	+ 33	- 150	2,660	- 61	- 288
St. Louis	1,975	- 38	- 185	1,289	-	- 87	686	- 38	- 98
Minneapolis	1,447	- 8	- 133	872	+ 2	- 85	575	- 10	- 48
Kansas City	1,720	- 21	- 182	1,160	+ 9	- 86	559	- 30	- 95
Dallas	1,096	- 9	- 150	868	- 2	- 119	228	- 7	- 31
San Francisco	4,377	+ 2	- 118	3,116	+ 6	- 17	1,261	- 4	- 101
LOANS									
Total	39,715	- 903	- 2,486	24,738	- 476	-1,427	14,977	- 427	-1,059
Boston	4,408	- 32	- 100	1,808	- 28	- 112	2,599	- 5	+ 11
New York	13,500	- 509	- 339	8,595	- 319	- 218	4,905	- 191	- 120
Philadelphia	2,753	- 54	- 176	1,814	- 15	- 75	939	- 39	- 101
Cleveland	3,223	- 49	- 226	2,300	- 36	- 119	924	- 13	- 108
Richmond	1,706	- 24	- 162	882	- 7	- 108	824	- 17	- 54
Atlanta	1,128	- 38	- 218	768	- 23	- 121	360	- 15	- 97
Chicago	5,668	- 96	- 527	3,642	- 40	- 258	2,026	- 56	- 269
St. Louis	1,440	- 45	- 156	899	- 11	- 84	541	- 34	- 72
Minneapolis	863	- 11	- 124	515	- 2	- 83	348	- 10	- 42
Kansas City	1,175	- 34	- 156	741	- 9	- 81	434	- 25	- 75
Dallas	830	- 12	- 127	649	- 3	- 99	181	- 8	- 28
San Francisco	3,022	+ 1	- 174	2,124	+ 15	- 68	898	- 14	- 106
INVESTMENTS									
Total	17,875	+ 385	+ 1,241	10,734	+ 292	+ 985	7,141	+ 92	+ 256
Boston	2,463	+ 41	+ 106	775	+ 19	+ 61	1,688	+ 21	+ 45
New York	5,781	+ 72	+ 784	3,498	+ 26	+ 548	2,283	+ 46	+ 237
Philadelphia	1,656	+ 43	+ 80	922	+ 38	+ 57	733	+ 4	+ 23
Cleveland	1,670	+ 102	+ 156	1,230	+ 86	+ 150	440	+ 16	+ 5
Richmond	685	+ 16	+ 52	324	+ 8	+ 15	361	+ 8	+ 37
Atlanta	377	+ 16	+ 4	284	+ 16	+ 25	93	- 1	- 20
Chicago	1,959	+ 68	+ 89	1,324	+ 73	+ 108	635	- 5	- 20
St. Louis	535	+ 7	- 29	389	+ 11	- 2	146	- 4	- 27
Minneapolis	585	+ 3	- 8	358	+ 3	- 2	227	-	- 6
Kansas City	544	+ 13	- 25	419	+ 18	- 5	125	- 5	- 20
Dallas	265	+ 3	- 23	219	+ 2	- 20	47	+ 1	- 3
San Francisco	1,355	+ 2	+ 57	992	- 9	+ 51	363	+ 10	+ 6

(St. 6843)

Federal Reserve District	All banks Sept. 24 1930	All banks Change since - June 30 1930	All banks Change since - Oct. 4 1929	Member banks Sept. 24 1930	Member banks Change since - June 30 1930	Member banks Change since - Oct. 4 1929	Nonmember banks Sept. 24 1930	Nonmember banks Change since - June 30 1930	Nonmember banks Change since - Oct. 4 1929
DEPOSITS*									
Total	52,784	-2,170	- 2,396	31,839	-1,851	-1,165	20,945	- 319	- 1,231
Boston	6,340	- 12	+ 32	2,328	- 27	- 39	4,011	+ 15	+ 71
New York	17,033	-1,776	- 1,056	10,358	-1,623	- 698	6,675	- 154	- 358
Philadelphia	3,754	- 22	+ 3	2,280	- 20	+ 25	1,474	- 2	- 23
Cleveland	4,413	- 26	- 155	3,159	- 22	- 5	1,253	- 4	- 150
Richmond	2,212	- 18	- 49	1,104	- 1	- 38	1,108	- 17	- 11
Atlanta	1,401	- 40	- 169	962	- 32	- 42	439	- 8	- 127
Chicago	7,201	- 86	- 389	4,594	- 21	- 162	2,607	- 65	- 227
St. Louis	1,818	- 61	- 162	1,151	- 21	- 48	666	- 40	- 114
Minneapolis	1,475	- 7	- 86	876	-	- 31	600	- 7	- 56
Kansas City	1,829	- 12	- 129	1,192	+ 5	- 10	638	- 17	- 119
Dallas	1,085	- 23	- 124	850	- 17	- 85	235	- 6	- 39
San Francisco	4,223	- 87	- 109	2,984	- 72	- 32	1,239	- 15	- 77
REDISCOUNTS AND BILLS PAYABLE									
Total	563	- 160	- 950	316	- 119	- 834	247	- 41	- 116
Boston	32	- 14	- 71	17	- 13	- 63	15	- 2	- 8
New York	80	- 101	- 205	69	- 97	- 186	10	- 4	- 19
Philadelphia	56	- 39	- 113	27	- 18	- 75	29	- 21	- 38
Cleveland	45	- 22	- 68	23	- 17	- 81	22	- 5	+ 12
Richmond	59	-	- 52	26	- 3	- 39	34	+ 3	- 13
Atlanta	66	- 1	- 57	34	+ 2	- 57	33	- 2	-
Chicago	81	+ 15	- 143	50	+ 23	- 97	31	- 8	- 46
St. Louis	60	+ 6	- 61	29	+ 4	- 54	32	+ 2	- 8
Minneapolis	13	-	- 34	5	-	- 35	8	-	+ 1
Kansas City	20	- 8	- 28	9	- 3	- 36	11	- 4	+ 8
Dallas	28	+ 6	- 13	18	+ 5	- 17	10	+ 2	+ 4
San Francisco	22	- 2	- 104	10	- 2	- 95	11	-	- 9

*Exclusive of inter-bank deposits.

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DIVISION OF BANK OPERATIONS
FEDERAL RESERVE BOARD
DECEMBER 22, 1930.

(St. 6843a)

Not billed, Board ruled contra, Dec. 26. 30 ccw

Sec'y

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 24, 1930.

To The Federal Reserve Board

Subject: Payment of Interest to withdrawing Member Banks.

From Mr. Wyatt- General Counsel.

2—8495

At Mr. Hamlin's request, I have carefully reviewed and reconsidered the opinion on the above subject rendered by Mr. Vest under date of November 13, 1930, holding that a member bank withdrawing from the Federal Reserve System is entitled to the payment of interest on its cash-paid subscription to Federal reserve bank stock at the rate of one-half of one per cent per month from the date of last dividend only when such interest has been earned during the period since the date of the last dividend, and that, if the amount earned during such period has been insufficient for this purpose, the member bank is then entitled to only that proportion of the prescribed percentage which has been earned during such period.

OPINION.

After the most careful and thorough reconsideration, I am unable honestly and conscientiously to reach any conclusion except that Mr. Vest's opinion is correct and that the same interpretation which he places upon the provisions of Section 9 relating to the amount to be paid to a State member bank which surrenders its Federal reserve bank stock or is required to do so by the Federal Reserve Board must apply equally to the provisions of Section 6 regarding the amount to be paid to the receivers of insolvent member banks and to receivers appointed by the Comptroller of the Currency for national banks which cease to transact a banking business without going into voluntary liquidation and without a receiver having been appointed therefor for other lawful cause.

On the other hand, I am of the opinion, that under the provisions of Section 5, any member bank which goes into liquidation or reduces its

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capital stock is entitled to receive one-half of one per cent interest since the date of the last dividend on the amount paid for the stock surrendered, regardless of whether or not current earnings are sufficient for that purpose; except that the amount refunded shall in no case exceed the book value of the stock surrendered.

These conclusions result in certain inequalities; but these inequalities can be avoided in part by paying dividends regularly out of surplus and, wherever possible, cancelling Federal reserve bank stock only immediately after the payment of a dividend. Both the blame and the remedy for such inequalities as cannot be avoided in this manner rest with Congress.

DISCUSSION.

I have reviewed Mr. Vest's opinion with a sincere desire to find, if possible, some sound basis on which I could disagree with his conclusion; because it appears to result in inequalities in some cases. To this end, I have read every opinion previously written in this office on this general subject; have caused a thorough research to be made of the debates in Congress on every provision of the Federal Reserve Act on this subject and every amendment thereto; and have myself made a careful study of the results of such research and of the legislative history of such provisions. I have also given the entire problem most careful thought for several weeks.

All of this research and study have not only failed to reveal any sound legal reason for disagreeing with Mr. Vest's opinion but, on the contrary, have convinced me beyond a scintilla of doubt that the conclusion which he reached is inescapable.

When I first read and approved Mr. Vest's opinion of November 13, the conclusion which he had reached seemed so clearly correct that I did not consider it necessary to add thereto another argument in support of his conclusion which occurred to me and which seemed to me to be stronger and more conclusive than any of the arguments contained in his concise opinion. It is this additional and stronger argument which I find insuperable and which is rendered more clearly so by a consideration of the legislative history of the various provisions of the Federal Reserve Act on this subject.

THE LANGUAGE OF THE LAW.

Section 9 of the Federal Reserve Act provides that :

> "Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank."

The answer to this question does not depend solely upon the construction to be given to the words "if earned" standing alone but upon the meaning which Congress intended to convey by these words, as indicated by the context and by other provisions of the Act dealing with the same subject or similar subjects.

Mr. Vest has pointed out that the words "if earned" follow immediately after the words "from date of last dividend" and that it is natural and normal to construe them as meaning "if earned since the date of last dividend". This is persuasive but not nearly as conclusive as the effect of the words "in no event to exceed the book value of the stock at that time", which immediately follow the words "if earned."

Before taking up this more important point, however, I desire to mention two lesser points which appear from a mere reading of the language of the above provision:

(1) The provision that "all of its rights and privileges as a member bank shall thereafter cease and determine" clearly deprive the bank of any right to dividends, as such; it has already surrendered its stock or has been ordered to do so by the Federal Reserve Board; and, under the provisions of Section 7, dividends are payable only to "stockholders", i. e., member banks.

(2) The one-half of one per cent per month is expressly designated as "interest"- not "dividends".

THE INSUPERABLE OBSTACLE.

The words "the amount refunded in no event to exceed the book value of the stock at that time" are much more important, and either these words or the equivalent occur in every provision of the Federal Reserve Act dealing with the surrender and cancellation of Federal reserve bank stock and the amount to be refunded therefor. They were incorporated in the Act for the obvious purpose of preventing any stockholder of a Federal reserve bank from receiving more than its share of the assets of a Federal reserve bank over and above the Federal reserve bank's total outstanding liabilities to depositors and other creditors. In practical application, they mean that, (1) if the Federal reserve bank's capital is impaired (e.g. 10%) at the time, a withdrawing stockholder can receive for his stock only what it is worth (e.g. 90¢ on the dollar), regardless of what the earnings of the Federal reserve bank have been since the date of the last dividend; (2) if the capital has been impaired in past years and subsequent earnings have been insufficient to restore it, the withdrawing stockholder receives only the par value of the stock minus the percentage of the net impairment; and (3) if the Federal reserve bank has no net earnings on hand, in the form of surplus or otherwise, the withdrawing stockholder can receive no more than the par value of his stock.

The book value of the stock, of course, is determined by subtracting from the total value of all the bank's assets the amount of all of its liabilities to depositors, creditors, and all other persons except shareholders and dividing the remainder by the number of shares of its stock outstanding. If the books are properly kept, and the assets properly valued, it is equal to the sum of the following items divided by the number of shares:

1. Paid and unimpaired capital.

2. Unimpaired surplus.

3. Current net earnings or "undivided profits".

The words "the amount refuded in no event to exceed the book value of the stock at that time", therefore, are entirely adequate to prevent the payment of the one-half of one per cent per month from date of last dividend if the Federal reserve bank has no surplus and no current net earnings or undivided profits. If, therefore, the words "if earned" are construed to refer not only to current net earnings but also to accumulated earnings for past years represented by "surplus", then these words are mere surplusage and have no practical effect whatever.

Congress has seen fit to place two limitations upon the payment of the one-half of one per cent interest since the date of the last dividend.

1. The amount refunded shall not exceed the book value of the stock at the time; and

2. Such interest may be paid only "if earned".

Unless the words "if earned, are construed to mean current net earnings accumulated since the payment of the last dividend, the second restriction is deprived of any practical significance.

It is a well settled rule of statutory construction , which "is of universal application, and has been repeatedly recognized and stated by the courts," that:

> "That construction of a statute is to be favored and must be adopted if reasonably possible, which will give meaning to every word, clause, and sentence of the statute and operation and effect to every part and provision of it." (Black , Interpretation of Laws, 2nd Ed., p. 322, citing a full page of authorities printed in small type.)

> "A construction which gives to a clause or part of a statute no function to perform, or makes it a mere unmeaning repetition of another clause, must be rejected as unsound, if any other fair or even plausible construction can be found, for it would impute folly or want of intelligence to the legislature. For the same reason, no word, clause, or sentence should be construed as unmeaning or mere surplusage, if a construction can legitimately be found which will give force to and preserve all the words of the statute." (Black, Interpretation of Laws, 2nd Ed., p. 324, citing State v. Harden , 62 W. Va. 313, 58 S.E. 715; State v. Fontenot,, 112 La. 628, 36 So. 630.)

To construe the words "if earned" as referring to net earnings since the date of the last dividend gives them a meaning different from the words, "the amount refunded in no event to exceed the book value of the stock at that time"; because, so construed, they prevent the payment of 1/2 of 1% interest since the date of the last dividend if such interest has not been earned since that date, even though the book value of the stock is greatly in excess of the amount paid for it. This construction, therefore, must be adopted in preference to a construction which would deprive the words "if earned" of any practical effect. If it results in inequities, that is unfortunate; but the fault lies with Congress and we must look to Congress for the remedy.

LEGISLATIVE HISTORY.

The legislative history of the various provisions of the Federal Reserve Act governing the cancellation of Federal reserve bank stock and the amount to be refunded for it conclusively demonstrates that Congress attached a special significance to the words "if earned" and intended them to have a meaning different from, and an effect in addition to, the meaning and effect of the words "the amount refunded in no event to exceed the book value of the stock at that time."

A concise analysis of the provisions of Sections 5, 6 and 9 bearing upon this subject and of their legislative history is attached hereto as "Exhibit A", and a more detailed report of an exhaustive research into the legislative history of these provisions by Mr. S.E. Seitz, Law Clerk in this office, is attached hereto as "Exhibit B". A careful examination of these exhibits is respectfully invited.

The original Federal Reserve Act contained three different provisions dealing with the cancellation of Federal reserve bank stock, and these three provisions covered the following four classes of cases:

1. Voluntary liquidation of a member bank. (Sec. 5.)
2. Reduction of capital stock by a member bank. (Sec. 5.)
3. Insolvency of a member bank; (Sec. 6) and
4. Expulsion of a State member from the Federal Reserve System. (Sec. 9)

All three of these provisions of the original Federal Reserve Act contained the words "not to exceed the book value thereof" or the equivalent, but only one of them, the provision of Section 9 dealing with the expulsion of State member banks, contained the words "if earned."

As amended to date, the Federal Reserve Act contains four provisions dealing with the cancellation of Federal reserve bank stock, and these four provisions cover the following six classes of cases:

(1) Voluntary liquidation by a member bank. (Sec. 5.)

(2) Reduction of capital stock by a member bank. (Sec. 5.)

(3) Insolvency of a member bank. (Sec. 6.)

(4) Appointment of a receiver for a national bank which ceases to transact a banking business.(Sec. 6.);

(5) Expulsion of a State member bank; (Sec. 9) and

(6) Voluntary withdrawal of State member banks from the Federal Reserve System. (Sec.9)

All of these provisions, except the provision of Section 5 dealing with the voluntary liquidation of a member bank and the reduction of capital stock by a member bank, which has never been amended, now contain the words "if earned". The words, "if earned" have been inserted or carefully retained in the Act every time any provision of the Act pertaining to the surrender of Federal reserve bank stock has been amended.

Such an amendment was enacted as late as the spring of this year, after every Federal reserve bank had accumulated a surplus large enough to enable it to pay dividends for many years, and at a time when it was already apparent that the current earnings for the year probably would not be sufficient to pay dividends.

I refer to the Act of April 23, 1930, which amended Section 6 so as to authorize the Comptroller of the Currency to appoint a receiver for any national bank which should cease to transact a banking business without going into voluntary liquidation and without a receiver having been appointed therefor for other lawful cause. The Board recommended such an amendment and transmitted with its recommendation a draft of a bill prepared by this office.

The bill divided the section into three paragraphs. The first paragraph contained the exact text of the first sentences of Section 6 of the Federal Reserve Act as originally enacted without any changes whatsoever and dealt solely with the cancellation of Federal reserve bank stock held by a member bank for which a receiver had been appointed on grounds of insolvency. The second paragraph provided for the appointment of a receiver for a national bank which ceases to transact a banking business and for the cancellation of its Federal reserve bank stock and the refund of the amount due thereon. The third paragraph correspondend to the second (and last) sentence of Section 6 as originally enacted but made appropriate changes in the provision regarding the resulting reduction in the capital stock of the Federal reserve bank. In both the first and second paragraphs the provision regarding the amount to be paid for Federal reserve bank stock to be cancelled contained the words "not to exceed the book value thereof", but neither of them contained the words "if earned".

The bill was introduced in both Houses of Congress and passed the Senate in the form prepared by this office; but the Committee on Banking and Currency of the House of Representatives recommended that the House bill be amended by inserting the words "if earned" in both the first and second paragraphs, explaining that :

> "These amendments are what may be considered as clarifying amendments and make the wording of the bill more specific. "

The House passed the bill with these Committee amendments and subsequently the Senate Committee on Banking and Currency favorably reported the House bill and it was passed by the Senate, and signed by the President in lieu of the Senate bill, which had previously been passed by the Senate without these amendments.

It might be argued that the characterization of these amendments as "clarifying amendments" by Mr. McFadden in the report submitted by him on behalf of the Committee on Banking and Currency indicates that the Committee thought that they merely repeated and made more specific the meaning of the words "not to exceed the book value thereof", which had been in Section 6, since it was originally enacted; but -

(1) The necessity of explaining the effect of technical amendments or amendments the effect of which it is desired to conceal has so often been avoided by the device of calling them "clarifying amendments" that small significance will be attached to such a characterization by informed persons;

(2) If they have any meaning at all, the words "if earned", have a very different meaning from the words "not to exceed the book value thereof"; they cannot possibly have the same meaning as applied to a Federal reserve bank with an impaired capital; and

(3) To deprive them of any meaning whatever would violate the universally accepted rule that, if possible, every word in a statute must be given some meaning and effect.

It would be going entirely too far to assume that the Banking and Currency Committee recommended this amendment to the Bill and that Congress adopted it merely to provide for a remote contingency which was already provided for adequately by the words "not to exceed the book value thereof". Unless such an improbability is assumed, the words "if earned" must be construed to refer to current earnings and not to earnings for previous years which have been covered into the surplus.

THE RESULTING INEQUITIES.

I attach no importance to Mr. Vest's argument that, if the words "if earned" were construed as referring to accumulated earnings for past years carried in the surplus account, the Federal reserve bank would be required to pay one-half of one per cent per month to a bank which withdrew after being a member only during years when there were no net earnings, and that this would be inequitable. On the contrary, I think the equities are all on the other side, and I would prefer to see Mr. Vest's opinion overruled if I thought it could be done legally.

The greatest inequity results from the fact that Section 5 requires every bank applying for Federal reserve bank stock after the organization of the Federal reserve bank to pay therefor "its par value plus one-half of one per centum a month from the period of the last dividend;" and a bank which joins the System and remains a member only during a period of lean earnings may have to pay more than par for its stock and, upon withdrawing, may not only lose all income on its investment but may actually receive for its stock less than it paid for it. This would be a real injustice, especially if the Federal reserve bank had a large surplus accumulated prior to the time such bank joined the System; but it would be no more of an injustice than that suffered by a bank which buys Government bonds bearing a low rate of interest and later finds it necessary to sell them at a time when the market value is less than par.

Another apparent injustice results from the fact that, under a ruling of Attorney General Dougherty, which is absolutely binding on the Board until reversed or overruled by a later Attorney General , or by a court, it is held that Federal reserve banks may pay dividends out of surplus when current net earnings are not sufficient for that purpose, and a member bank withdrawing between dividend periods can not be paid <u>interest</u> out of surplus although banks remaining in the System will receive <u>dividends</u> out of surplus covering the same period. I have serious doubts as to the soundness of that ruling of the Attorney General, however, and I believe that, under his ruling, this inequity can be avoided by paying dividends every six months (out of surplus if necessary) and cancelling no Federal reserve bank stock except immediately after the payment of a dividend.

I doubt the soundness of the Attorney General's opinion and of the opinion of my predecessor upon which it is based because:

(1) They are based very largely on grounds of expediency;

(2) They give no consideration to the title of Section 7, "Division of Earnings", which implies current net earnings and not past earnings previously carried to surplus account;

(3) They ignore the fact that, in providing for the disposition of "earnings", Section 7 specifically refers to those "for the year ending December thirty-first, nineteen hundred and eighteen;"

(4) They overlook or ignore the fact that Section 7 provides that, "Thereafter ten per centum of such net earnings shall be paid into the surplus", and, if the word "earnings" refers to accumulated earnings for past years as well as net earnings for the current year, it would be necessary to carry to the surplus account an amount equal to 10 per cent of the surplus already accumulated as well as 10 per cent of the net earnings for the current years, which is absurd; and

(5) They argue that the provision for the payment of cumulative dividend requirements out of the surplus of a Federal reserve bank which is dissolved or goes into liquidation indicate that Congress intended that dividends should be paid out of surplus when current net earnings are insufficient ; whereas it could be argued with equal or greater force that, if Congress had contemplated that dividends should be paid out of surplus while a Federal reserve bank continues in business, the provision for payment of dividends out of the surplus of a Federal reserve bank which is dissolved or goes into liquidation would have been entirely unnecessary and utterly meaningless, especially in view of the fact that the provision for payment of "an annual dividend" and the provision that such dividend "shall be cumulative" are both mandatory, and such dividends must be paid if there are any "earnings" above necessary expenses out of which to pay them.

For these reasons, and also because they deal with entirely different language, I have not considered that the reasoning of the Attorney General's opinion or that of the Board's General Counsel on the payment of dividends out of surplus are entitled to much weight in considering the main question dealt with in this opinion and in Mr. Vest's opinion of November 13.

THE WAY OUT OF THE DILEMMA.

Since the Attorney General has ruled that dividends may be paid out of surplus when current earnings are insufficient; since an Executive Order issued by President Wilson, which is still in effect, declares that opinions of the Attorney General shall be binding on the Department requesting them; and, since the provisions of Section 7 with regard to the payment of "annual dividends" apparently are mandatory, it would seem that the inequities resulting from the inclusion of the words "if earned" in Sections 6 and 9 could be avoided if (1) dividends were paid every year as long as the surplus is sufficient and (2) Federal reserve bank stock held by member banks which voluntarily withdraw from the Federal Reserve System, or are expelled from the Federal Reserve System or are placed in the hands of receivers were only cancelled immediately following the payment of a dividend.

Banks voluntarily withdrawing can time the effective dates of their withdrawals, and receivers of member banks can time their applications for cancellation of Federal reserve bank stock, so as to accomplish this. It might not always be possible for the Board to time the forfeiture of membership of State banks which violate the law so as to accomplish the same thing; but banks which violate the law are not entitled to very much consideration.

Any doubts as to the legality of the payment of dividends out of surplus could be eliminated and the principal difficulty dealt with in this memorandum could also be eliminated by obtaining an amendment to the law, at an appropriate time, which would add the following provision at the end of Section 7 of the Federal Reserve Act:

"The six per cent dividends herein provided for and interest at the rate of one-half of one per cent per month on stock cancelled pursuant to Sections 5, 6 and 9 of this Act, may be paid out of surplus when the current net earnings are insufficient for that purpose, and all such payments heretofore made are hereby ratified; but no such dividends or interest shall be paid when such payment would impair the capital of the Federal reserve bank."

It ought to be easy to slip this through Congress as a "clarifying amendment", especially if coupled with the much-agitated -for amendment giving member banks a greater participation in the earnings of Federal reserve banks.

A much better way to obtain its enactment would be to lay the entire situation frankly before Congress and request the enactment of the above amendment on grounds of fairness and decency.

CONCLUSION.

If the above opinion contains any crudities of form or expression, I respectfully beg the Board's indulgence. It was written in long hand between the hours of six p.m. December 23 and four a.m. December 24, and I shall not have time to revise it before it is typewritten in final form. The reasoning and the conclusions reached are not the result of hasty work but of careful research and mature deliberation extended (with many interruptions) over a period of several weeks.

Respectfully,

Walter Wyatt
General Counsel

WW OMC

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Dec. 19, 1930

To Mr. Wyatt

From Mr. Seitz

Subject: Legislative history re words "if earned" as used in Federal Reserve Act.

gpo 2—8495

I have read the Committee reports and debates in Congress on the original Federal Reserve Act (H.R. 7837- 1st and 2nd Sessions, 63rd Congress) for any discussions or remarks which might throw some light upon what Congress intended the scope or meaning to be of the words "if earned", as they are now used in the paragraph of Section 9 dealing with the payment of interest to withdrawing member banks; but I was unable to find anything in this connection. Accordingly, in the hope that these words might have been discussed when Congress was considering the amendments of June 21,1917 (H.R. 3673-1st Session, 65th Congress) and April 23,1930 (H.R.6604-2d Session, 71st Congress), I also read the debates and committee reports on these amendments, but here too I was unable to find anything of any value.

In view of the above and in view of the fact that other provisions of the Federal Reserve Act (Sections 5 and 6) are somewhat related to the paragraph of Section 9 which was the subject of the above legislative search, in that they prescribe the rate of refund to a member bank in case it reduces its capital stock or voluntarily liquidates or becomes insolvent, I have set out below, with such explanations as are possible, the different wording of these sections beginning with the time the original Federal Reserve Act was enacted, each section being covered separately:

SECTION 9.

The present paragraph of Section 9, which contains the words "if earned", reads as follows:

"Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, <u>if earned</u>, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank."

The paragraph of the original Federal Reserve Act in which these words first appeared read as follows:

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender "the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided."

Except for minor differences, the pertinent provisions of the paragraph of the original Federal Reserve Act above quoted read the same as the provisions of the paragraph of the bill which was reported out by the so-called "administration" section of the Senate Banking and Currency Committee, and they read precisely the same as the provisions of the paragraph which was agreed upon by the committee of conference on the disagreeing votes of the Senate and House.

However, the bill as reported out by the House Committee and as passed by the House contained language which was materially different from that as reported out by the Senate Committee and as passed by the Senate, and the following will show the respects in which the bill was changed by the Senate, the parts shown in capital letters representing new matter inserted and the parts canceled representing matter stricken out:

"If at any time it shall appear to the Federal Reserve Board that a banking association or trust company organized under the laws of any State or of the United States AND HAVING BECOME A MEMBER BANK has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, AFTER HEARING, to require such banking association or trust company to surrender its stock in the Federal reserve bank; ~~in which it holds stock~~ upon ~~receiving from~~ such SURRENDER THE Federal reserve bank SHALL PAY the cash-paid subscriptions to the said stock ~~in current funds~~ WITH INTEREST AT THE RATE OF ONE-HALF OF ONE PER CENTUM PER MONTH, COMPUTED FROM THE LAST DIVIDEND, IF EARNED, NOT TO EXCEED THE BOOK VALUE THEREOF, LESS ANY LIABILITY TO SAID FEDERAL RESERVE BANK, EXCEPT THE SUBSCRIPTION LIABILITY NOT PREVIOUSLY CALLED, WHICH SHALL BE CANCELED, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said banking association or trust company from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided."

From the above, it will be seen that the bill as reported to and passed by the House gave the Board the power to expel a member bank for infractions of the Federal Reserve Act or the Board's Regulations, and that where an expulsion was necessary the member bank was only to be entitled to receive its "cash-paid subscriptions". It was not until the bill had been amended by the Senate Committee that an expelled bank was to be entitled to receive, in addition to its paid subscription, "interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof". This language was also adopted by the so-called Conference Committee and remained unchanged when the bill was finally passed.

It will also be seen that neither the House, Senate or Conference bill nor the bill as finally enacted contained any provisions covering the voluntary withdrawal of member banks. Congress did not legislate specifically upon this point until the Act of June 21, 1917, and in enacting this amendment, the provisions in the original paragraph relating to the payment of interest on stock which a member bank had been forced to surrender were struck out with the result that the paragraph then dealt only with the power of the Board in cases of a non-compliance with the law or regulations. The provisions relating to the payment of interest in such cases were transposed to a new paragraph which covered also the voluntary withdrawal of member banks, and the language dealing with such interest payments read substantially the same as that originally used. As thus amended, the pertinent provisions of this paragraph read as follows, the parts underlined representing new matter:

> "Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash-paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank."

As stated above, Section 9 was amended by the Act of April 23, 1930, but the applicable portion of this act only amended the paragraph in which the words "if earned" appeared in the original Federal Reserve Act and did not affect the paragraph in which these words now are found; and, as no discussion of these words was found in the debates on the amendment, it accordingly, is not necessary further to consider this amendment.

SECTION 5

This section is related to some extent to Section 9 in that it prescribes the amount to which a member bank is entitled in case it reduces its capital stock or goes into voluntary liquidation. The words "if earned," however, do not form a part of this section, and the pertinent provisions of the section, which has not been amended since the time of its original enactment, read as follows:

> "When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank."

The above quoted provisions are precisely the same as those agreed upon by the so-called Conference Committee and are substantially the same as those reported out by the so-called "administration" section of the Senate Banking and Currency Committee. The provisions as reported out by the House Committee, however, were materially different from those reported by the Senate Committee, and the following will show the nature of the differences, the parts in capital letters representing material which was inserted by the Senate Committee:

> "In case a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a member bank goes into voluntary liquidation it shall surrender all of its holdings of the capital stock of said Federal reserve bank AND BE RELEASED FROM ITS STOCK SUBSCRIPTION NOT PREVIOUSLY CALLED. In either case the shares surrendered shall be canceled and such member bank shall receive in payment therefor, under regulations to be prescribed by the Federal reserve board, a sum equal to its cash paid subscriptions on the shares surrendered AND ONE-HALF OF ONE PER CENT A MONTH FROM THE PERIOD OF THE LAST DIVIDEND, NOT TO EXCEED THE BOOK VALUE THEREOF, LESS ANY LIABILITY OF SUCH MEMBER BANK TO THE FEDERAL RESERVE BANK."

SECTION 6

This section is also related to Section 9 in that it prescribes the amount to which a member bank becomes entitled when it becomes insolvent. The words "if earned" now form a part of this section and the pertinent provision of the section, as it was amended by the Act of April 23, 1930, reads as follows:

> "If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank."

Except for the words "if earned", the above quoted provision is precisely the same as that contained in Section 6 of the original Federal Reserve Act and in Section 6 of the draft of the bill as recommended by the so-called Conference Committee; and the only difference between the bill as recommended by the Conference Committee and by the Senate Committee on Banking and Currency is that the former inserted the phrase "without impairment of its liability" between the words "canceled" and "and". The bill as reported out by the House Committee and as passed by the House, contained language which was materially different from that as reported out by the Senate Committee, and the following will show the respects in which the bill was changed by the Senate, the parts shown in capital letters representing new matter and the parts canceled representing matter stricken out:

> "~~That if~~ IF any member bank shall ~~become~~ BE DECLARED insolvent and a receiver ~~be~~ appointed~~,~~ THEREFOR, the stock held by it in said Federal reserve bank shall be canceled, and ALL CASH-PAID SUBSCRIPTIONS ON SAID STOCK, WITH ONE-HALF OF ONE PER CENTUM FROM THE PERIOD OF LAST DIVIDEND, NOT TO EXCEED THE BOOK VALUE THEREOF, ~~the balance, after deducting from the amount of its cash paid subscriptions~~ SHALL BE FIRST APPLIED TO all debts ~~due by such~~ OF THE insolvent MEMBER bank to ~~said~~ THE Federal reserve bank, AND THE BALANCE, IF ANY, shall be paid to the receiver of the insolvent bank."

As stated above, the words "if earned" were made a part of Section 6 by the Act of April 23, 1930, and for that reason the debates in Congress were read in the hope that some explanation might have been made as to why these words were included in this particular section; but nothing along this line was found. Incidentally, the Board itself recommended that this particular section be amended, but it appears that it was concerned mainly in amending this section and Section 9 in such a way that it could force the surrender of Federal reserve bank stock by member banks which have discontinued banking operations but which have not gone into liquidation and/or for which a receiver has not been appointed. In so far as the words "if earned" are concerned, the effect of this amendment on Section 9 has already been considered and with reference to Section 6, the Board, in order that it might secure the passage of legislation of the kind it had in mind, prepared a draft of an amendment to accomplish this purpose and forwarded it to Congress with letters addressed to the Chairmen of the Banking and Currency Committees. The words "if earned", however, do not appear in any of these drafts and no mention of them is made in the letters which the Board sent to Congress.

A bill conforming to the Board's recommendations was introduced in the House and these words were not included therein. When the bill went to the Committee, however, the words were inserted, and in making its report to the House, the Committee had the following to say regarding their inclusion:

> "The Committee on Banking and Currency, to whom was referred the bill (H. R. 6604) to amend sections 6 and 9 of the Federal reserve act, and for other purposes, having considered the same, report favorably thereon with the recommendation that the bill do pass with the following amendments:
>
> "Page 2, line 1, after the word 'dividend,' insert the words 'if earned,'.
>
> "Page 2, line 18, after the word 'dividend,' insert the words 'if earned,'.
>
> "These amendments are what may be considered as clarifying amendments and make the wording of the bill more specific."

The Senate Committee, in reporting the bill, concurred in the recommendations of the House Committee and used the same language in explaining why the words were included. These words, of course, were included in the bill as it finally passed.

SUMMARY

Summing up, therefore, it may be said that the words "if earned" have been in Section 9 ever since the Federal Reserve Act was originally enacted, although prior to the amendment of June 21, 1917, they were a part of a paragraph which is different from the paragraph in which they are now included and which covered the payment of interest only to banks which were forced to surrender their Federal reserve bank stock because of expulsion. The amendment of June 21, 1917, gave banks the right to interest also when they voluntarily withdraw from membership.

The words "if earned" have never appeared as a part of Section 5.

The words "if earned" did not become a part of Section 6 until the amendment of April 23, 1930.

Respectfully,

S. E. Seitz

S. E. Seitz.

All banks applying for Federal reserve bank stock must pay par value of stock plus 1/2 of one per cent per month from date of last dividend. (Sec. 5, original Act).

Voluntary Liquidation or Reduction of Capital Stock
(Sec. 5, Original Act - Never amended)

When a member bank reduces its capital stock it shall surrender a proportionate amount of its Federal reserve bank stock. When a member bank voluntarily liquidates it shall surrender all of its Federal reserve bank stock	In either case, the shares of stock shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and "1/2 of 1% a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank. (Words "if earned" never in this section)

Insolvency Member Bank - National bank ceasing to do banking business
(Sec. 6 Original Act. Not amended except by Act of April 23, 1930.)

The Original Act referred only to insolvency of member banks and provided that, upon insolvency and appointment of receiver Federal reserve bank stock shall be canceled "and all cash-paid subscriptions on said stock, with 1/2 of 1% per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any,shall be paid to the receiver of the insolvent bank." (Words "if earned" omitted from this section of original Act.)

Act of April 23, 1930

1. Inserted words "if earned" in provision regarding insolvency.

2. Provided for appointment of receiver when national bank ceases banking operations for 60 days, and that Federal reserve bank stock shall be canceled, "and said national bank shall receive in payment therefor, * * * a sum equal to its cash-paid subscriptions on the shares cancelled and 1/2 of 1% a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank."

Expulsion or Voluntary Withdrawal of State Member Bank.- (Sec. 9, as amended June 21, 1917, April 17, 1930, and April 23, 1930.)

The Original Act made no provision for the voluntary withdrawal of State banks from the Federal reserve system but provided only for their expulsion for violations of the provisions of the Act or the Board's regulations. "Upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability," etc.

The Act of June 21, 1917, provided for the voluntary withdrawal of State member banks, struck out the above quoted provision regarding expulsion and, in lieu thereof, provided that, "Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, * * * it shall be entitled to a refund of its cash-paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time. * * *."

The textual changes made by this amendment may be indicated as follows:

> "* * * ~~the-Federal-Reserve-Bank-shall-pay-the~~ it shall be entitled to a refund of its cash-paid subscripti~~ons-to-the-said-stock~~ with interest at the rate of one-half of one per centum per month ~~computed~~ from date of ~~the~~ last dividend, if earned, ~~not~~ the amount refunded in no event to exceed the book value ~~thereof~~ of the stock at that time * * *"

The Act of April 17, 1930, authorized the Federal Reserve Board, in its discretion to waive the six months' notice of the voluntary withdrawal of State member banks and the Act of April 23, 1930, authorized the Board to expel State member banks which cease doing a banking business without a receiver or liquidating agent having been appointed therefor; but neither of these amendments changed the language quoted above.

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BROKERS' LOANS, NEW YORK

1930

Averages

1930	Own account	Corres. banks	Total banks	To others	Total
January	844	862	1,706	1,644	3,351
February	942	971	1,913	1,546	3,459
March	1,210	1,100	2,310	1,430	3,741
April	1,557	1,183	2,740	1,376	4,115
May	1,665	1,062	2,727	1,302	4,030
June	1,831	917	2,748	1,078	3,825
July	1,631	747	2,378	846	3,224
August	1,659	692	2,351	798	3,150
September	1,676	750	2,426	748	3,174
October	1,675	537	2,212	557	2,769
November	1,357	435	1,792	458	2,249
December	1,266	339	1,605	407	2,013

By weeks

	Own account	Per cent	Corres. banks	Per cent	Total banks	Per cent	To others	Per cent	Total
Jan. 8	886	26.4	824	24.6	1,710	51.0	1,642	49.0	3,352
15	853	25.3	877	26.1	1,730	51.4	1,636	48.6	3,365
22	814	24.4	874	26.1	1,688	50.5	1,653	49.5	3,341
29	823	24.6	875	26.1	1,698	50.7	1,648	49.3	3,345
Feb. 5	928	27.3	927	27.2	1,855	54.5	1,547	45.5	3,402
12	924	26.8	989	28.7	1,913	55.5	1,536	44.5	3,450
19	962	27.5	987	28.3	1,949	55.8	1,545	44.2	3,494
26	953	27.3	980	28.1	1,933	55.4	1,556	44.6	3,489
Mar. 5	1,006	28.1	1,032	28.8	2,038	56.9	1,545	43.1	3,583
12	1,146	30.8	1,079	29.0	2,225	59.8	1,494	40.2	3,720
19	1,266	33.0	1,171	30.4	2,437	63.4	1,404	36.6	3,841
26	1,424	37.3	1,118	29.2	2,542	66.5	1,278	33.5	3,820
Apr. 2	1,547	39.0	1,104	27.8	2,651	66.8	1,316	33.2	3,968
9	1,471	36.8	1,184	29.7	2,655	66.5	1,339	33.5	3,994
16	1,503	36.4	1,230	29.8	2,733	66.2	1,392	33.8	4,124
23	1,568	37.2	1,213	28.7	2,781	65.9	1,436	34.1	4,217
30	1,695	39.6	1,183	27.7	2,878	67.3	1,397	32.7	4,274
May 7	1,611	39.5	1,123	27.6	2,734	67.1	1,341	32.9	4,074
14	1,618	40.4	1,069	26.7	2,687	67.1	1,320	32.9	4,007
21	1,655	41.2	1,069	26.6	2,724	67.8	1,290	32.2	4,015
28	1,777	44.2	988	24.5	2,765	68.7	1,257	31.3	4,022
June 4	1,911	46.6	995	24.3	2,906	70.9	1,195	29.1	4,101
11	1,799	45.0	1,053	26.3	2,852	71.3	1,146	28.7	3,998
18	1,850	48.9	906	23.9	2,756	72.8	1,031	27.2	3,787
25	1,765	51.6	713	20.9	2,477	72.5	939	27.5	3,416

(Continued on following page)

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By weeks

	Own account	Per cent	Corres. banks	Per cent	Total banks	Per cent	To others	Per cent	Total
July 2	1,710	53.1	654	20.3	2,364	73.4	856	26.6	3,219
9	1,563	48.8	760	23.7	2,323	72.5	880	27.5	3,203
16	1,596	49.2	799	24.7	2,395	73.9	847	26.1	3,243
23	1,619	50.2	776	24.0	2,395	74.2	832	25.8	3,226
30	1,669	51.7	745	23.1	2,414	74.8	814	25.2	3,228
Aug. 6	1,719	53.5	694	21.6	2,413	75.1	801	24.9	3,214
13	1,646	52.2	705	22.3	2,351	74.5	804	25.5	3,155
20	1,607	51.4	714	22.8	2,321	74.2	807	25.8	3,128
27	1,665	53.7	655	21.1	2,320	74.8	782	25.2	3,102
Sept. 3	1,721	55.4	620	19.9	2,341	75.3	768	24.7	3,110
10	1,614	51.4	770	24.5	2,384	75.9	759	24.1	3,143
17	1,649	51.2	826	25.6	2,475	76.8	746	23.2	3,222
24	1,721	53.4	782	24.3	2,503	77.7	719	22.3	3,222
Oct. 1	1,834	59.9	602	19.6	2,436	79.5	627	20.5	3,063
8	1,740	59.9	555	19.1	2,295	79.0	610	21.0	2,905
15	1,702	61.8	514	18.7	2,216	80.5	536	19.5	2,752
22	1,590	60.8	511	19.6	2,101	80.4	512	19.6	2,613
29	1,510	60.1	502	20.0	2,012	80.1	500	19.9	2,512
Nov. 5	1,512	61.6	469	19.1	1,981	80.7	473	19.3	2,454
12	1,335	59.7	451	20.2	1,786	79.9	449	20.1	2,235
19	1,292	59.1	439	20.1	1,731	79.2	455	20.8	2,185
26	1,288	60.7	380	17.9	1,668	78.6	455	21.4	2,122
Dec. 3	1,296	61.4	373	17.7	1,669	79.1	442	20.9	2,111
10	1,269	60.5	400	19.0	1,669	79.5	430	20.5	2,099
17	1,184	58.9	395	19.7	1,579	78.6	430	21.4	2,008
24	1,262	65.8	294	15.3	1,556	81.1	363	18.9	1,920
31	1,321	68.6	235	12.2	1,556	80.8	370	19.2	1,926

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