The Papers of Charles Hamlin (mss24661)

364_07_001-	Hamlin, Charles S., Scrap Book – Volume 215, FRBoard Members

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 5, 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 215 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 215

Page 20 - Earnings & Expenses of F.R. Banks, May 1931.
Page 21 - Confidential Review by C.S. Hamlin - "C. E. Mitchell".
Page 41 - Data re National Bank of Commerce.
Page 49 - Telegram from economists to Governor Meyer re Federal Reserve Policy.
Page 60 - Memo to Mr. Hamlin from Mr. Goldenweiser re increase in the volume of money in circulation.
Page 64 - Memo to Mr. Hamlin from Mr. Goldenweiser re Austrian currency and the recent credit to the Austrian National Bank.
Page 75 - Memo to Mr. Hamlin from Mr. Noell re employment of Mr. O.M.W. Sprague.
Page 80 - Memo to Mr. Hamlin from Mr. Goldenweiser re decrease in member bank credit between 1920-1922.
Page 83 - Memo to Mr. Hamlin from Mr. Goldenweiser re Federal Reserve System's part in stabilization of prices.
Page 86 - (X-6914) Applications of State Banks and Trust Companies for Membership.
Page 90 - Telegram to Gov. Harrison from Gov. Meyer re "participation by F.R. Bank in a credit to the Reichsbank".
Page 92 - Memo to Board from Gov. Harrison re Credit to Reichsbank.
Page 111 - (X-6915) Action on Governors' Conference Topics.
Page 121 - Data on Germany's reparations payments.
Page 138 - Credits Extended by Federal Reserve Banks to European Central Banks to Promote Monetary Stabilization Abroad.
Page 144 - Excerpts from minutes of Board's meeting.
Page 148 - Memo to Mr. Wyatt from Mr. Hamlin re "Ownership by the Mercantile Commerce Bank & Trust Company of stock of the Mercantile Commerce National Bank".

Ser Bu

CONFIDENTIAL
Not for publication

B-377

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MAY 1931

Federal Reserve Bank	Month of May 1931									January - May 1931		
	Earnings from					Current expenses		Current net earnings		Current net earnings		Available for reserves, surplus and franchise tax*
	Discounted bills	Purchased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. Currency	Total	Amount	Ratio to paid-in capital	Amount	Ratio to paid-in capital	
									Per cent		Per cent	
Boston	$19,323	$15,553	$65,972	$3,457	$104,305	$149,612	$168,975	-$64,670	--	-$237,216	--	-$538,512
New York	56,294	45,799	235,415	10,837	348,345	516,370	565,533	-217,188	--	-452,735	--	-1,487,609
Philadelphia	51,250	153	78,292	727	130,422	146,543	132,238	-1,816	--	-57,729	--	-442,880
Cleveland	34,391	20,649	103,277	13,037	171,354	205,198	221,390	-50,036	--	-119,882	--	-547,719
Richmond	45,402	604	39,683	2,283	87,972	115,388	129,125	-41,153	--	-227,102	--	-375,110
Atlanta	27,962	9,987	30,996	4,489	73,434	102,641	109,177	-35,743	--	-147,848	--	-281,321
Chicago	34,146	21,376	154,286	49,736	259,544	278,889	301,933	-42,389	--	-102,455	--	-606,089
St. Louis	17,892	10,000	44,564	1,629	74,085	110,836	111,956	-37,871	--	-123,878	--	-192,133
Minneapolis	11,631	6,481	50,267	774	69,153	75,899	80,683	-11,530	--	-21,377	--	-103,632
Kansas City	27,872	10,240	47,730	22,576	108,418	133,076	137,508	-29,090	--	-100,050	--	-209,001
Dallas	24,401	5,656	55,555	1,903	87,515	98,687	104,959	-17,444	--	-87,799	--	121,041
San Francisco	31,954	17,579	80,357	5,426	135,326	184,290	185,448	-50,122	--	-228,400	--	-517,398
TOTAL												
May 1931	382,528	164,077	986,394	116,874	1,649,873	2,117,429	2,248,925	-599,052	--			
April 1931	371,346	216,628	998,639	110,660	1,697,273	2,141,908	2,337,506	-640,233	--			
May 1930	798,589	456,189	1,499,567	125,913	2,880,258	2,188,253	2,610,570	269,688	1.8			
Jan.-May 1931	2,351,734	1,035,004	5,582,588	568,094	9,537,420	10,679,565	11,443,891	-1,906,471	--	-1,906,471	--	-5,180,363
1930	5,954,757	3,940,973	7,435,039	824,726	18,155,495	11,034,138	12,331,561	5,823,934	8.2	5,823,934	8.2	1,735,871

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JUNE 9, 1931.

*After making allowance for accrued dividends and current debits and credits to profit and loss account but not for profit or loss on sales of U. S. securities held in special investment account.

P20

VOLUME 215
PAGE 20

Sc 4h

X-6873

CONFIDENTIAL. April 27, 1931.

C. E. MITCHELL.

Review. (By C. S. Hamlin).

-I-

Banking Conditions at Time of Statement, March 26, 1929.

There was a near approach to a panic on the New York Stock Exchange on Tuesday, March 26, 1929. The break was one of the sharpest in stock exchange history. Call loan rates reached 20%, the highest figure since 1920.

The so-called direct pressure to reduce total borrowings of the banks had been in force since February 7, 1929, the date of the Board's warning.

There was a feeling abroad that the banks had finally determined to adopt the most drastic methods, and would refuse even to extend credit facilities which, under ordinary circumstances, they would have granted as a matter of course, such as to meet temporary withdrawal of funds by corporations for quarterly interest and dividend payments, or withdrawals from New York to interior parts of the country.

Brokers loans both for the New York banks' own account, and "for others" had been declining during the week ending March 27, 1929.

The call loan renewal rates were as follows:

March 25	9%
" 26	12%
" 27	15%
" 28	15%

Undoubtedly one cause of the crisis which arose on that day, March 26th,

Volume 215
Page 21

P 21

was the acute credit stringency in Chicago, arising from the heavy liquidation on the Chicago Stock Exchange beginning on March 21st, which resulted in large withdrawals of funds from New York.

Frightened traders all over the country were selling stocks blindly on that day. By 1:30 p.m. the volume of trading on the New York Stock Exchange had reached over 5½ million shares, and the ticker tape was 58 minutes behind the market.

Under these circumstances, Mr. Mitchell, on Tuesday, March 26th, came to the relief of the money market, advancing six millions of dollars on call loans.

-II-

Mr. Mitchell's Statement.

In the afternoon of Tuesday, March 26th, Mr. Mitchell gave out the following interview, as taken from the New York Herald-Tribune of Wednesday, March 27th:

> "So far as this institution is concerned, we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else, to avert, so far as lies within our power, any dangerous crisis in the money market.
>
> "While we are averse to resorting to rediscounting for the purpose of making a profit in the call market, we certainly would not stand by and see a situation arise where money became impossible to secure at any price."

Mr. Mitchell is quoted by the New York Times of March 29, 1929, Friday, as saying that his Bank was prepared to make available 5 millions for the call loan market 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 kill the idea that money could not be had no matter what was offered for it. From the time the offer was made, the call money rates did not go above the minimum rate, but did go down, closing at 8%.

(190-1)

The New York World of March 30, 1929, quotes Mr. Mitchell as follows:

> "Should another crisis develop, will you stand by again?" was the next question. Mr. Mitchell answered, "It can be safely assumed that we will endeavor at all times to prevent a critical situation going out of bounds. We won't be alone. Other banks will subscribe as strongly as we to that doctrine."

-III-

Senator Glass on Mr. Mitchell.

The New York Times edition of Friday, March 29, publishes an attack on Mr. Mitchell by Senator Glass, who was quoted as follows:

> "The Federal Reserve Board has adopted the administrative policy of having Federal reserve banks remonstrate with member banks against permitting the facilities of the Federal Reserve System to be used for stock speculative purposes.
>
> "This should have been done long ago, before the situation got out of hand. Now that it has been done, a Class A director of a Federal Reserve Bank, himself President of a great banking institution, vigorously slaps the Board squarely in the face and treats its policy with contempt and contumely. He avows his superior obligation to a frantic stock market over against the obligation of his oath as a director of the New York Federal Reserve Bank, under the supervisory authority of the Federal Reserve Board.
>
> "Mr. Mitchell's proclamation is a challenge to the authority and the announced policy of the Federal Reserve

"Board. The challenge ought to be promptly met and courageously dealt with.

"The Board should ask for the immediate resignation of Mr. Mitchell as a Class A Director of the New York Federal Reserve Bank.

"If the National City Bank in New York, or any other member bank of the System anywhere, imagines it is greater than the Federal Reserve System and may defy and reject the considered policy of the Federal Reserve Board, it should at least be given to understand that the President of such a bank will not be permitted to have an official part in the management of the Federal Reserve System.

"I do not know what the Federal Reserve Board will do about it, but I have a very decided conviction as to what it should do, and that swiftly.

"The whole country has been aghast for months and months at the menacing spectacle of excessive stock gambling, and when the Federal Reserve Board mildly seeks to abate the danger by an administrative policy, fully sanctioned by law, rather than by a prohibitive advance in rediscount rates, which might penalize the legitimate business of the entire country, an officer of the System issues a defiance and engages in an attempt to vitiate the policy of the Federal Reserve Board.

"Whatever his abilities as a banker may be, or however high his character, the spirit manifested by Mr. Mitchell totally unfits him for the position of director of a great Federal Reserve Bank. This is not an age for the manifestations of a Nicholas Biddle."

Senator Glass, in the New York Times of April 2, 1929, in reply to the attack of Ex-Senator Owen who had defended Mr. Mitchell, declared that the Reserve Board had the power to remove Mr. Mitchell and to compel reserve banks to refuse the rediscount privilege to those engaged in speculation. Senator Glass further stated:

"Whether or not the Federal Reserve Board should have removed Charles E. Mitchell for his open defiance of the Board's authority and his avowed attempt to frustrate its administrative policy, is, of course, a matter of opinion. It was my conviction, and still is, "that the Board should have taken exactly that action.

"This should have been done promptly, not so much, perhaps, for the offer by Mr. Mitchell's Bank of 25 millions to a dangerously extended speculative stock market which the Board was conservatively trying to curb, as for his dramatic assertion of a superior obligation to the stock speculators over against his obligation to the Federal Reserve System, of which Mr. Mitchell is a sworn director.

"He was well aware of the policy being pursued by the Federal Reserve Board; nevertheless he set out with apparent deliberation to thwart it and to bring the authority of the Board into contempt. In this he succeeded.

"The authority of the Board to suspend or remove Mr. Mitchell or any other officer or director of the New York Federal Reserve Bank is not a matter of opinion. It is so plain that denial of it betrays ignorance of the law.

"There is no implied limitation on the procedure thus sanctioned. If there were any, it is inconceivable that it would relate to an offense involving a vitiation of the Board's vital administrative policies.

"In scores of ways the Act lodges with the central Board at Washington supremacy of control. If the President of the National City Bank, who is also a Class A Director of the New York Federal Reserve Bank, can be persuaded to believe that the Federal Reserve Act authorizes reserve banks to rediscount paper for stock speculative purposes he is too simple to hold either position. Of course, Mr. Mitchell knows better; otherwise there was no point in his public defiance of the Federal Reserve Board. He would have thrown his Bank's $25,000,000 in the speculative swirl as a customary transaction.

"This stock speculating with funds of Federal reserve banks is by law precluded, as it was distinctly intended to be. To say Federal reserve banks are not subject to the authority of the Federal Reserve Board in making loans is to betray ignorance of the law."

The New York Times of October 25, 1929, also contains the following interview by Senator Glass:

> "The present trouble is due largely to Charles E. Mitchell's activities. That man more than 40 others is more responsible for the present situation. Had the Federal reserve acted and dismissed him, the trouble might be less. The crash has shown that stock gambling has reached its limit."

(196-151)

-IV-

Comment, - Editorial and Otherwise.

Representative Hamilton Fish in the New York Times of April 2, 1929, attacked Senator Glass and defended Mr. Mitchell, stating that he had averted a panic. He also endorsed the recommendation of Mr. Mitchell's Bank for an increase in rediscount rates to 6%, expressing the belief that such a step would be sufficient to end excesses in the stock market. He further stated that Mr. Mitchell's quick thinking and acting should have been commended instead of condemned by Senator Glass.

The New York Journal of Commerce, March 28, 1929, speaks of Mr. Mitchell's announcement:

> "Reserve officials claim that every attempt has been made by the Federal Reserve Bank of New York, with the hearty support of its directors, to cut down the practice of resorting to reserve banks for rediscounts."

It points out that:

> "At the end of 1928 local bankers rediscounted heavier in order to ease the strain in the money market, and now they propose to do so again. On the basis of such facts as these, the market and the public at large has gradually come to the conclusion that the appeals of reserve banks and their directors are not intended to be taken very literally, and that they are really in the nature of exhortations rather than in the nature of financial precept or advice. There has been a great deal in the whole conduct of the Reserve System to sustain this point of view,

"including, of course, the well-known statement of Governor Young to a Congressional Committee to the effect that all was well, followed by speeches of bankers to the same purport, and then finally by his urgent request of last February not to loan for speculation and not to encourage speculative activities."

It also speaks of the lack of confidence which has been gradually engendered through the belief that leaders of financial opinion do not mean exactly what they say. States that it would help immensely if we could get to some definite accepted basis of understanding on the whole question which would be just as sound and forceful when one man's stocks are going down as when those of another have been subjected to pressure.

Mr. David Lawrence in the Washington Star of Friday, March 29, 1929, states that the Board has been disturbed not so much by the action taken by Mr. Mitchell as by his statement, which Mr. Lawrence quotes. Mr. Lawrence adds that:

"Naturally Mr. Mitchell had to borrow the 25 million dollars at the Federal Reserve Bank of New York, and by agreeing to loan this money the New York institution, by inference, acquiesced in his action, for the Federal Reserve Board was only interested in breaking down speculation and not in forcing a situation in which money could not be had by anybody at any price. To the extent that the New York Board of directors are presumed to have been acting in harmony with the Federal Reserve Board, the statement of Mr. Mitchell is recorded as unfortunate, in that it may be construed by the banking world as a criticism on his part of the famous Federal Reserve Board warning of February 14th."

"It was not what Mr. Mitchell did, but what he said, that caused discussion in official quarters here, and for that reason the Board itself is not likely to raise an issue at this time; in fact, Mr. Mitchell's point of view was outlined at Thursday's meeting of the directors of the Federal Reserve Bank of New York which was attended by representativesof the Federal Reserve Board at Washington."

"The Federal Reserve Board is determined to go to the limit of its powers."

He finally added that:

"The raising of the rediscount rate is the normal weapon used, but in a situation like the present, which is abnormal, something more drastic than a mere raising of the rediscount rate is talked about. It is, in a nutshell, the ordering of the Federal reserve banks and branches to refuse to rediscount at all the paper of member banks when presented to get funds to aid speculation. It is difficult to draw the line between a speculative and a commercial credit, but the burden of proof would be on the banking institution, and the mere announcement of the order or regulation, it is felt here, would be sufficient to tell the speculative element that the Federal Reserve Board is in earnest, and will not be defied."

The New York Times, in an editorial in the edition of March 30, 1929, stated in part as follows:

"Yet it appears that the great emphasis and positiveness with which he (Senator Glass) has denounced the action of the National City Bank, and some other banks in New York, in striving to avert a money panic this past week were somewhat misplaced.

"Senator Glass seems to have confused a temporary emergency with a permanent policy.

"The banks did not come forward with funds to promote speculation but to prevent what threatened to be a serious crisis in the money market .....

"The endeavor was to surmount a threatening crisis. It was obviously successful, and the presumption was that these particular bank funds were thereupon withdrawn from the money market.

"There has been some idle talk that there was an agreement to "peg" the call money rate at 15%. The mere statement of this shows how ridiculous it is to suppose that the movement was one to bolster wild speculation. Paying 15% for money to speculate with ceases to be speculation and becomes insanity.

"Senator Glass does well to hold up the hands of the Federal Reserve Board in the efforts which it has made to keep the whole credit system of the nation from being upset.

"In this position it is probable that the great majority of cautious and responsible bankers agree with him."

(190-2)

-V-

Further Comment.

Approval of Mr. Mitchell's course.

Annalist
D. W. Ellsworth.
Mar. 29, 1929. 190 - 17.

Brooklyn Daily Eagle. 190 - 58.

Baltimore Sun
Apparently approves what he did but criticises what he said.
190 - 58.

Financial News.
April 2, 1929. 190 - 145 (2)

Fish, Hamilton, Cong.
April 3, 1929, 190 - 33.

Fisher, Prof. Irving.
April 1, 1929. 190 - 24.

Hartford Courant. 190 - 58.

New York Evening Post. 190 - 58.

New York Herald-Tribune.
March 29, 1929. 190 - 3.

New York Times.
March 30, 1929. 190 - 2

New York World.
Mar. 28, 1929. 189 - 142.
Mar. 30, 1929. 190 - 16.

Owen, Ex-Senator
Mar. 31, 1929. 190 - 14.

Spokane Spokesman-Review.
Apparently approves what he did but criticises what he said.
190 - 58.

Springfield Republican.
Approves what he did.
Criticises what he said.
190 - 58.

Approval of Senator Glass's criticism of Mr. Mitchell.

San Francisco Chronical. 190 - 58.

Lawrence, David. 190 - 5.

Raleigh News and Observer. 190 - 58.
Neutral

Chicago Daily News. 190 - 58.

Kansas City Journal-Post. 190 - 58.
Ambiguous

New York Journal of Commerce. 189 - 138.

Resume

The above quotations seem to show that as a rule the press of the country approved, or at least did not object to, what Mr. Mitchell did to relieve the money market and to avert a threatened panic.

Many of the papers, however, while approving what he did, criticised him severely for what he said.

--VI--

Proceedings in the Federal Reserve Board.

March 28, 1929:

Dr. Miller telephoned from New York that the bankers are very angry because of Mr. Mitchell's interview; that they did not object to his relieving the market to avoid panicky conditions, but that his interview overthrew banking control of the situation and started up speculative activity anew.

Governor Young was asked by the Board to call up Mr. Mitchell and ask him to inform the Board in writing just what he said in his interview.

March 29, 1929:

Dr. Miller stated that he met Mr. Mitchell at a meeting of the New York directors; that Mr. Mitchell was very irritable and petulant; that he (Mitchell) told him he was in a belligerent mood, and that the Federal Reserve Act must be changed to take away the power of the Board.

Dr. Miller stated that the sentiment in New York was against Mr. Mitchell as having given his interview for the selfish prestige of his Bank at the expense of his banking competitors; that other New York banks had done as much as, or more than, Mr. Mitchell to relieve financial stress.

Dr. Miller said all was going well until Mr. Mitchell gave out his interview; that we could not yet say whether that interview had blocked direct pressure or not (previously he had told C. S. H. he feared it had.)

The Board finally agreed on a letter to Mr. Mitchell, and ordered it sent. Governor Young at first objected, saying that Mr. Mitchell might put the Board in a hole. Later, however, he dictated a letter couched more moderately, and all agreed to it.

Mr. James said that the Board should remove Mr. Mitchell, as demanded by Senator Glass in yesterday's papers.

Most of the Board felt that we should send the letter and later decide what further to do.

There was little, if any, criticism made in the Board as to what Mr. Mitchell <u>did</u>, but severe criticism as to what he <u>said</u>.

No action was taken by the Board and the matter still remains on the docket as "unfinished business".

-VII-

Correspondence Between Federal Reserve Board and Mr. Mitchell.

On March 29, 1929, Governor Young sent the following letter:

"The New York Herald-Tribune of Wednesday, March 27, published the following statement attributed to you:

'So far as this institution is concerned, we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else, to avert, so far as lies within our power, any dangerous crisis in the money market.

'While we are averse to resorting to rediscounting for the purpose of making a profit in the call market, we certainly would not stand by and see a situation arise where money became impossible to secure at any price.'

"At the request of the Federal Reserve Board anf for its information, I would appreciate it very much if you would let me know whether you were correctly quoted."

On April 1, 1929, Mr. Mitchell replied as follows:

"I acknowledge receipt of your letter of March 29th asking on the part of the Federal Reserve Board, if, in a statement accredited to me in the New York Herald Tribune of Wednesday, March 27th, I was correctly quoted. You will realize that I did not write or give out any statement, but as the result of talking with a reporter for perhaps two or three minutes I was quoted in the article in question. Generally speaking, I think the reporter correctly expressed my view.

"That a credit crisis was not only threatened but did exist on Tuesday, March 26th, is a fact that has general acknowledgment.

"If there can be objection on the part of your Board to the statement, I assume it must have reference to the following words, 'so far as this institution is concerned we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else.'

"One of the actuating reasons for the formation of the Federal Reserve System was to avoid credit and currency crises and though in the formation of the System that became a Federal reserve responsibility, nevertheless I do not believe, and I do not conceive the public as believing, that such banks as ours were thereby relieved of a like responsibility, and I conclude that the obligation for the fulfillment of that institutional responsibility at any critical moment is paramount to the maintenance of a Federal Reserve Board general policy. It was our assumed obligation in that critical moment that is referred to in the article in question.

"Our position regarding the necessity of curbing speculation and of restraining the unhealthy growth of the credit structure has so often been publicly stated and so well known everywhere that I assume there is no need for elaboration thereon to your Board."

-VIII-

What Mr. Mitchell Did, as distinguished from what he Said.

The following table shows borrowings from the Federal reserve banks and call loans made (1) By the National City Bank, (2) By 22 banks in New York City, from Friday, March 22nd, through Saturday, March 30th:

(In millions of dollars)

Date	NATIONAL CITY BANK		22 banks in New York City	
	Borrowings from Federal reserve bank	Call loans	Borrowings from Federal reserve banks	Call loans
Fri. Mar. 22	14	137	114	812
Sat. " 23	0	138	157	833
Mon. " 25	25	144	191	842
Tues. " 26	24	150	177	809
Wed. " 27	35	141	190	802
Thurs." 28	-	135	154	785
Frid. " 29	-	135	137	826
Sat. " 30	-	135	154	848

(208 - 116.)

It is interesting also to note that the National City Bank in the following 12 weeks, borrowed only on 11 days.

It seems to me that the above figures could hardly serve as a conclusive demonstration of borrowing from the Federal reserve bank in order to increase call loans.

Between Friday, March 22nd, and Saturday, March 23rd, borrowings decreased to nothing, while call loans increased slightly.

From Monday, March 25th, to Tuesday, March 26th, borrowings decreased 1 million, while call loans increased 6 millions.

From Tuesday, March 26th , to Wednesday, March 27th, borrowings increased 11 millions, while call loans decreased 9 millions.

From Wednesday, March 27th, through the rest of the week, the borrowings were all paid off, while the call loans were reduced on Thursday to 135 millions and remained at that figure through Thursday, Friday, and Saturday.

Such a record would of itself hardly have justified the Board in removing Mr. Mitchell on the ground of having borrowed specifically in order to obtain Federal reserve credit for speculative uses, even though such uses, in unreasonable amounts, would undoubtedly have been in violation of the Federal Reserve Act and of the policies of the Board as announced, by Regulations or otherwise, thereunder.

-IX-

Discussion as to what Mr. Mitchell actually said in his Interviews.

The question left for consideration would seem to be whether the Board would have been justified in removing Mr. Mitchell from office as a Class A Director, because of what he said in the above quoted interviews.

The purport of what he said was that he considered that his Bank had an obligation, paramount to any Federal reserve warning or anything else, to avert, as far as it lay in his power, any dangerous crises in the money market, with an intimation, very clearly expressed, that he would not hesitate to rediscount at the Federal reserve bank for this purpose.

This was clearly, and was intended to be, a deliberate defiance of the authority of the Federal Reserve Board, and an attack on its policies as he apparently conceived them.

This defiance and attack was made by a Class A Director of the Federal Reserve Bank of New York who had taken oath that he would not knowingly violate, or willingly permit to be violated, any of the provisions of the Federal Reserve Act.

This interview, moreover, constituted a direct incentive to speculators to proceed in their orgy under the belief that the speculative market would be supported by the banks by the use of Federal reserve credit.

In my opinion, this statement of Mr. Mitchell would have justified the Board in removing him, even on the assumption, as to which I express no opinion, that his action in relieving the money market may have been justifiable, and even though, in fact, he did not secure any additional rediscounts to provide the funds he placed, or proposed to place, on the call loan market.

-X-

Final Conclusion.

Assuming all of the above to be true, however, it was necessary for the Board to consider possible consequences which might arise from the exercise of its power of removal in this case.

It should be remembered that the banking situation at that time was in a state of high tension, and that the break was one of the sharpest in Stock Exchange history.

It should be further remembered, that even at the lowest prices of Tuesday, March 26, 1929, the industrial averages were left higher than at the peak of the boom in November, 1928, so that there was ample room for a further disastrous break should the tension continue, or should some new source of apprehension arise.

Looking backward, I fear that the removal of Mr. Mitchell at that time might have brought about the very collapse which finally came in October - six months later. If such had been the result of the Board's action, I am sure it would have felt that the price paid was too high for expelling Mr. Mitchell.

The Federal Reserve Board, as it stated in its warning of February 7, 1929, neither planned nor desired a crash in the New York stock market. On the contrary, I believe it saved the country from such a crash by its refusal to adopt the affirmative rate increase policy of the Federal Reserve Bank of New York.

The Board, by its policy of direct pressure under the 5% rate, simply sought to protect agriculture and commerce by gradually withdrawing Federal reserve credit from the speculative channels into which it had seeped, and I felt at the time there was at least some hope that this could be done without bringing on a crisis in the stock market.

The final crash of October, 1929, in my opinion, came not from the withdrawal of Federal reserve credit from speculative channels, but from the increase of speculative credit in those channels brought about by the avalanche of "bootlegging" credit consisting of loans "for others" over which the Federal Reserve System had no control, - which avalanche made the speculative credit structure so top-heavy that it finally broke of its own weight.

It would certainly have been most unfortunate if the Board, having saved the country from a collapse in the stock market by blocking the policy of the Federal Reserve Bank of New York in entering upon incisive, repeated increases in discount rates, had found that by the expulsion of Mr. Mitchell, under the tense banking conditions at the time, it had brought on the very crisis it hoped it could avoid through the operation of direct pressure upon banks to reduce their borrowings, and I am of the opinion that the Board showed good judgment in failing to visit this penalty upon him, however richly it may have been deserved.

In this connection, attention should be called to Mr. Mitchell's grotesque misinterpretation of credit conditions between the time of the above interviews and the final crash in October. For example, on

September 23, 1929, he stated in an interview that there was no occasion for worrying about brokers loans or credit conditions; on October 22, 1929, returning from Europe, he stated that conditions were sound, and that many securities were selling at prices below their real value; on the same day, he announced, with almost sardonic humor, that the public was suffering from brokers loanitis!

As above stated, this matter is now on the docket of the Board as unfinished business, and can be brought up at any time for final determination by any member.

In my opinion, however, it would be better for the Board to leave Mr. Mitchell in the morass in which he has placed himself, and not incur the risk of making a martyr of him by any further proceedings.

- - - - -

P21

.. e 11, 1931. OC #1

The National Bank of Commerce consolidated with the Mercantile Trust Company, taking the name of the Mercantile Commer... Bank and Trust Company. The Board approved the consolidation, on condition that no purchase of stock of any other bank should be made except with the permission of the Board.

The charter of the National Bank of Commerce was retained for the purpose of winding up its trust business and turning it over to the consolidated bank.

The consolidated bank was given the right by the Board to hold the stock of the National Bank of Commerce until its trust business was turned over to the consolidated institution.

Later it was determined to continue the business of the National Bank of Commerce as a commercial bank, its title being changed to the Mercantile Commerce National Bank. The consolidated bank apparently owns all the stock of the National Bank of Commerce and its successor, the Mercantile Commerce National Bank.

The Board gave the consolidated institution permission to hold this stock until its trust business was wound up.

The question now arises whether the Board has power, and if it has power whether it should direct the consolidated institution to dispossess itself of the stock of the National Bank of Commerce in its name of the Mercantile Commerce National Bank.

Under the laws of Missouri the consolidated institution has a legal

P 41

VOLUME 215
PAGE 41

right to own part, or all, of the stock of the National Bank of Commerce under its new name of the Mercantile Commerce National Bank.

There is no allegation or claim that the holding of said stock by the consolidated institution would in any way affect it adversely.

P41

Sec Bk

TELEGRAM.

New York April 28

Mr. Eugene Meyer,
Governor, Federal Reserve Board,
Washington.

The undersigned desire to submit to the meeting of Governors the following memorandum on Federal Reserve policy:

Quote (Pages 1, 2, and 3) unquote
Professor J. F. Ebersole, of Harvard University, while not signing the memorandum, approves the expansion of open market purchases by Federal Reserve Banks now as we have enough liquidation in commodities and probably otherwise.

The following approve unconditionally:
E. E. Agger, Rutgers University
Harry Gunnison Brown, University of Missouri
John H. Cover, University of Chicago
John R. Commons, University of Wisconsin
Lionel D. Edie, W. I. King, New York University
H. L. Reed, Cornell University; J. Harvey Rogers, Yale University
Walter E. Spahr, New York University
Charles L. Stewart, University of Illinois
G. F. Warren, Cornell University
John Parke Young, Occidental College.

From time to time questions have been raised as to what contributions can be made by economists to the fundamental problem of recovery from the present depression. The undersigned economists find a meeting of their minds on certain fundamental phases of credit policy and hope that a statement of their views may be submitted for the attention of Federal Reserve Officials in a spirit, not of attempting to force their ideas on anyone, but rather of attempting to bring to the attention of the constituted authorities the convictions of a group of economists.

We believe that there are two problems of credit policy of fundamental importance: First, the emergency problem of utilizing credit policy as a means of furthering recovery from the current depression.

Second, the definition of an on-going credit policy over an extended period of time.

With regard to the first type of problem, we believe that a stage has been reached in the depression when a broad plan of credit expansion is urgently desirable. To the extent that gold inflow or other factors tending toward an increase of member bank reserve balances do not supply such expansion, we believe it should be supplied by open market purchases of Government securities. Undoubtedly many of the member banks would feel

P49

that such an expansion was flooding them with excess funds at a time when they already feel over-burdened with idle money. However, we do not believe that the spontaneous attitude of the private bankers is justified from the broader economic standpoint. From this standpoint, we believe the fundamental consideration is that deliberate policies should be adopted to arrest the momentum of contraction and liquidation which has already become acute and which does not show signs of being terminated by other factors. We have given due attention to historical precedent and to economic theory in arriving at this opinion. It is impossible to anticipate all of the objections that will be raised to such a policy, but we have carefully considered the usual objections and believe that they should not stand in the way of the proposed policy at the present time.

Accordingly, we respectfully submit our opinion that a definite expansionary credit policy is desirable as a means of carrying through the next impulse to business recovery. We believe that this movement should logically start in the United States where an abundance of gold exists, and where the money and capital markets exert a profound and, at times, dominating influence upon world-wide financial movements.

With regard to the second phase of the problem, namely the more permanent definition of credit policy, we urge as a criterion that the annual growth of credit volume should, in general, parallel the average long-term growth of production and trade. We believe that if this principle were to be adopted it would tend to avert over-expansions of credit, which accentuate trade booms, and to mitigate over-contractions of credit, which accentuate and prolong periods of depression and deflation. We are aware of the need in some degree of a frankly experimental attitude before all of the problems involved can be ironed out, but we believe that sufficient knowledge and experience are already available to warrant a more thorough testing of the principle proposed.

If a credit policy of the type described is to be effective in enabling the normal seasonal autumn pick-up in trade to carry through into a sustained recovery, we believe it is necessary that the policy be instituted in the very near future and applied cumulatively during future months. We hope and trust that the Federal Reserve authorities will welcome this statement of views in the spirit in which it is intended and that it may be helpful in the progress of thought in this country on the fundamental economic problems of the present trying period.

(Signed) Lionel B. Edie.

C41

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 17, 1931

See Cop

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

G P O 2—8495

The increase in the volume of money in circulation, both of hoarding by individuals and increase in cash held by banks, was about $375,000,000 since last November. In the last week, the estimate is an increase of about $65,000,000 in Chicago. That is, the figure for Friday, June 12, showed a circulation $65,000,000 above Friday of the preceding week. Since last April the increase in currency has been approximately $150,000,-000 to $175,000,000, largely in Chicago.

VOLUME 215
PAGE 60

G 60

See BH

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 17, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

EAG

2—8495

I transmit herewith a memorandum from Mr. Gardner covering the first part of your inquiry of June 16. I will answer the second part of the inquiry shortly.

B64

VOLUME 215
PAGE 64

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 17, 1931

To Mr. Goldenweiser

Subject: Austrian currency and the recent credit to the Austrian National Bank

From Mr. Gardner W.R.G.

2—8495

Austria was one of the first countries outside the United States to return to the gold standard after the war. On January 3, 1923 the National Bank of Austria opened under legal obligation to prevent depreciation of its notes 1/ in terms of gold. In order to meet this obligation, the bank had to convert Austrian currency into foreign currencies at a practically fixed rate of exchange. This was successfully done. In other words, Austria has been on the gold exchange standard since the beginning of 1923.

Stabilization was accomplished with the aid of an international loan (publicly floated) and supervision of Austria's finances by the League of Nations; but no credit by central banks was extended.

The recent credit granted by the Bank for International Settlements and a group of central banks, including the Federal Reserve System, was rendered necessary by the grave shock to confidence resulting from the threatened collapse of the Credit Anstalt, Austria's largest banking institution. The credit was designed to enable the National Bank of Austria to participate in the rehabilitation of the Credit Anstalt and to maintain the stability of Austrian currency on the exchanges in the face of possible large withdrawals of foreign funds. From the point of view of its purpose, this recent Austrian credit was more like the Hungarian credit extended in 1929, four years after Hungarian currency had been stabilized, than it was like the Belgian and other credits designed to assist in reestablishing gold standards.

1/ The National Bank is the sole bank of issue in Austria.

864

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 17, 1931.

See Bk

To Mr. Hamlin

Subject:

From Mr. Noell

2—8495

In accordance with your request at the meeting this morning there is given below information with regard to the employment in 1925 by the Board of Mr. O. M. W. Sprague.

At the meeting of the Federal Reserve Board on April 7, 1925, upon your motion, it was voted:

> "That the Board approve of the recommendation of the Governors Conference that a committee be appointed for the purpose of studying the question of needed banking legislation and that the committee be composed of Governors Harding, Strong, Young and Seay and Federal Reserve Agents Talley and Wills, and that the study be undertaken by the committee under the direction of Dr. Stewart, Director of the Board's Division of Research and Statistics, and that the Governor, acting through Dr. Stewart, ascertain whether Professor Sprague of Harvard University will accept temporary employment as a Research Assistant in the Board's Division of Research and Statistics, for a period of six months, for the purpose of assisting in the conduct of the study."

The employment of Mr. Sprague was authorized by the Board on April 9, 1925, when it was voted "that the compensation of Dr. Sprague as Special Research Assistant be fixed at the rate of $12,000 per annum for such time or proportion of his time as is actually given to the work of the Board, together with the necessary travelling expenses, effective April 8, 1925."

On June 16th the Director of the Division of Research and Statistics advised that Professor Sprague was giving the Board his entire time and that effective June 1st his salary should be at the rate of $12,000 per annum.

At the meeting of the Board on July 28, 1925, the Committee on Salaries, Expenditures and Efficiency recommended that Professor Sprague's salary be increased, effective August 1st, from $12,000 to $13,200 per annum, for such period during the remainder of the present year as he devotes his entire time to the work of the Board, but that the then present rate for half-time service, namely, $500 per month be not changed. This recommendation was approved by the Board. On September 29, 1925, the Board was advised that Professor Sprague had returned to his duties at Harvard University, and effective October 1st, his salary at the half-time rate of $6,000 per annum was approved.

On April 27, 1927, upon being advised that Professor Sprague was going abroad with Governor Strong, the Board voted to grant him a leave of absence without pay, effective April 24th.

Mr. Sprague was carried on the Board's rolls as being on indefinite leave of absence without pay until December 31, 1929, and the only service rendered during that time was in March, 1928, when he was called to Washington to consult with members of the Board with regard to brokers loans. The records indicate that he spent March 7th and 8th in Washington for which he was paid at the rate of $12,000 per annum.

VOLUME 215
PAGE 75

C75

For your further information there is given below the various amounts paid Mr. Sprague during his employment by the Board:

	1925	1926	1928
January		$ 500.00	
February		500.00	
March		500.00	$66.67
April	$366.67	383.33	
May	316.67		
June	1,000.00		
July	1,000.00		
August	1,100.00		
September	1,100.00		
October	500.00		
November	500.00		
December	500.00		
TOTAL	$6,383.34	$1,883.33	$66.67

675

Scr Bk

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 19, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

In accordance with your request about the amount of decrease in member bank credit between 1920-1922, as compared with the decrease between 1929 and 1931, the figures are as follows:

Between November 1920 and March 1922, member bank credit decreased, in round figures, by $2,500,000,000. Between December 31, 1929 and March 25, 1931, the decrease was $1,205,000,000. If we take the period from October 4, 1929 to March 1931, the decrease in member bank credit is practically the same as for the other period, namely, $1,200,000,000. During that period, however, loans to brokers in New York for account of others decreased by $3,600,000,000, so that the total decrease in bank credit plus loans for account of others during the period from October 1929 to March 1931 was $4,800,000,000. In addition to this amount, loans for account of others obtained by stock exchange members otherwise than through reporting member banks decreased by $2,600,000,000. If you wish to add this figure, it brings the total liquidation up to $7,400,000,000.

[Just after crash of 1929 M. bk. credit increased 1.4 billion by taking over loans for others but equally by Mar. 1930 decreased as above compared with Oct 4. '29.
Cf. Talk w Goldenweiser, June 19. 31]

VOLUME 215
PAGE 80

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 19, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

E.A.G.

2—8495

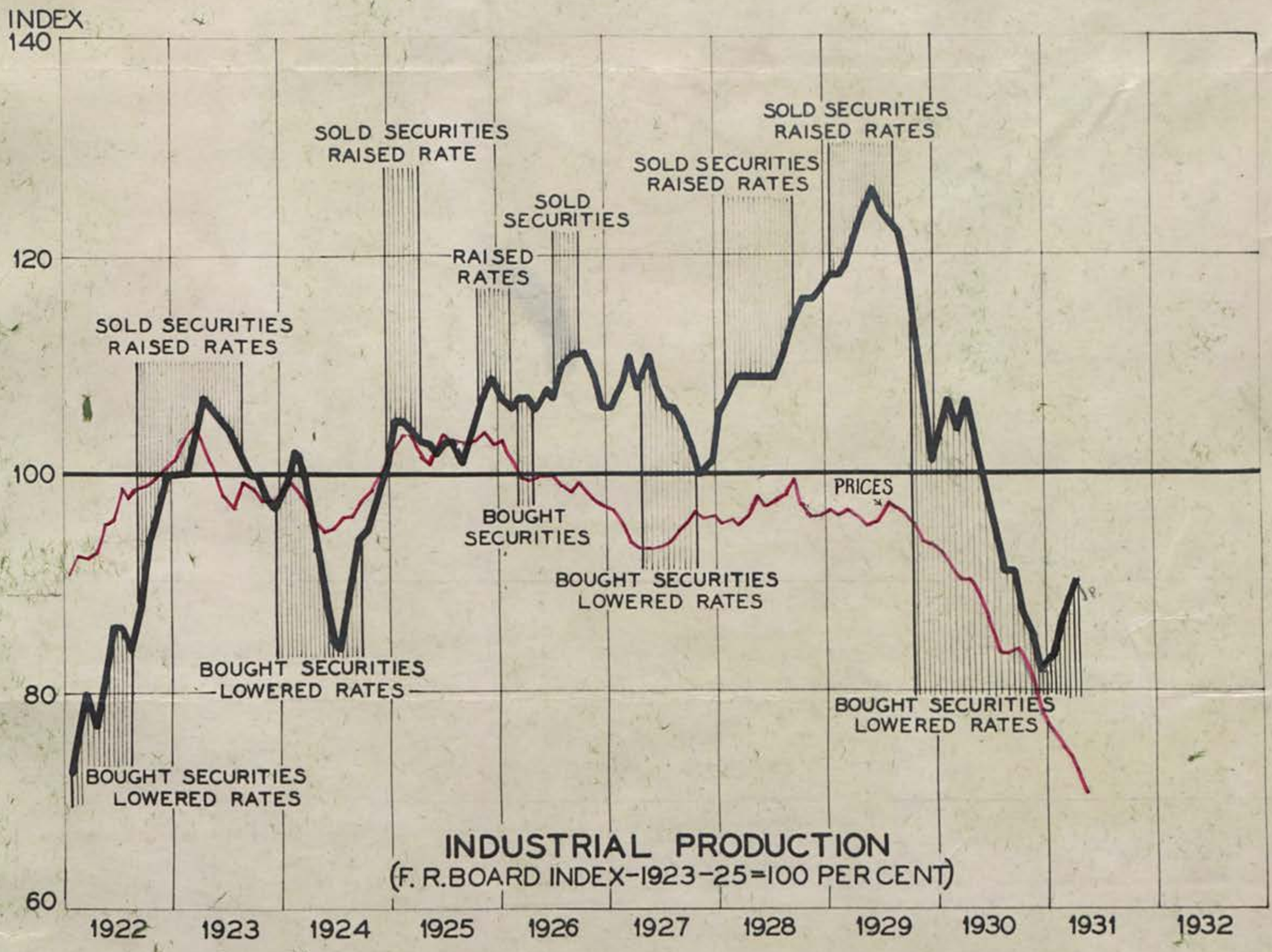
In reply to your inquiry about what the Federal reserve system has done to stabilize prices, I am sending you a chart that shows the curve of industrial production and wholesale prices from 1922 to date, and indicates Federal reserve policy during different periods. I think this chart shows that Federal reserve policy has been much more clearly related to industrial production than to wholesale prices. Nearly every time when industrial production was low the Federal reserve has adopted an easing policy, and when it was high it adopted measures of restraint. In relation to prices, this was true in 1923 and 1924, and possibly in the spring of 1925, but from 1925 to 1927 prices declined while Federal reserve policy was in the direction of firmness, and from 1927 to 1929 prices were stable, but Federal reserve policy was one of tight money. From the autumn of 1929 to date Federal reserve policy has been one of continuous easing and prices have continuously declined. I think that, putting it in mathematical terms, there is no correlation between the course of prices and the course of Federal reserve policy.

VOLUME 215
PAGE 83

083

Federal Reserve Bank
of New York
Reports Department
April 18, 1931.

2023.2.



PRICES - U.S. Bureau of Labor Statistics.
(Converted to base - 1923-25=100)

see RM

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6914

June 19, 1931.

SUBJECT: Applications of State Banks and Trust Companies for Membership.

Dear Sir:

A number of applications for membership in the Federal Reserve System, bearing the favorable recommendation of the Federal reserve bank committee, have been received by the Federal Reserve Board recently, where the condition of the applicant banks was not, in the opinion of the Board, up to the standard which should be maintained by banks seeking membership, the reports showing substantial depreciation in investment account, established losses on loans, etc. During the consideration of these applications it was suggested that the Board adopt the policy of requiring that at the time of admission of a state bank or trust company to membership in the Federal Reserve System, it shall be free from all known losses and depreciation, so that on the date its membership becomes effective, its statement will reflect as nearly as possible the value of its assets.

After some consideration of the proposed policy the Board referred the matter to the recent Conference of Governors for an expression of opinion, and was advised that it was the sense of the Conference that the policy is sound in principle.

The Board has now given further thought to the matter and has voted to adopt the proposed policy. You are, therefore, requested to bring this action of the Board to the attention of your committee of directors which passes on membership applications, in order that it may be governed accordingly in making its recommendations to the Federal Reserve Board on applications received in the future.

By order of the Federal Reserve Board.

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

VOLUME ~~86~~ 215
PAGE 86

g 86

Sec Bk

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

June 23, 1931

HARRISON

NEW YORK

Your telegram this date STOP Federal Reserve Board has voted to approve action of Board of Directors of Federal Reserve Bank of New York in authorizing the officers of the Bank, if and when it seems to them advisable QUOTE to arrange for the participation by this Bank in a credit to the Reichsbank by agreeing to purchase between June 24 and July 16, 1931, not to exceed the equivalent of $50,000,000 of prime commercial bills endorsed or guaranteed by the Reichsbank, it being understood that the Bank of England would agree to participate for an equivalent amount and that the Bank of France and the Bank for International Settlements would also be invited to participate and that if they or any other banks do participate, the participations of the Bank of England and the Federal Reserve Bank of New York will be reduced pro rata UNQUOTE STOP In approving this authorization the Federal Reserve Board does so with the understanding that the Bank of France will participate to a substantial amount in the proposed credit and that the participation of the Federal Reserve Bank of New York will be reduced ratably with that of the Bank of England by the amount of the participation of the Bank of France and any other banks which may participate in the credit STOP It is understood further that proper safeguards will be taken for the custody of any bills purchased for account of the Federal Reserve Bank of New York and for the release of gold from the Reichsbank for shipment for account of the Federal Reserve Bank of New York on the termination of the credit should that be necessary

MEYER

VOLUME 215, PAGE 90

C 90

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

U. S. GOVERNMENT PRINTING OFFICE: 1930 1104469

Sec Bill

C O P Y .

T E L E G R A M

Federal Reserve System

173 bfa
New York 531 p June 23

Board
Washington

Referring to our telephone conversation of today the Bank of England has advised us by telephone and cable that they have been invited by the Reichsbank to arrange a credit to the Reichsbank effective as of tomorrow up to a maximum of say $100,000,000 against security of prime commercial bills amounts utilized and outstanding to be repaid by the Reichsbank on July 16 if necessary by gold shipments or earlier if and when note circulation shall be reduced or devisen shall be received. It is understood that this credit is necessary in order to tide the Reichsbank over the end of the half year period when payments by the Reichsbank are customarily heavy. The Bank of England has today deposited one million pounds with the Reichsbank in order to enable the Reichsbank to maintain its required legal reserve percentage in its published statement as of tonight.

At a special meeting the directors of this bank this afternoon authorized the officers if and when it seems to them advisable, and subject to the approval of the Federal Reserve Board, to arrange for the participation by this bank in a credit to the Reichsbank by agreeing to purchase between June 24 and July 16, 1931 not to exceed the equivalent of $50,000,000 of prime commercial bills endorsed or guaranteed by the Reichsbank, it being understood that the Bank of England would agree to participate for an equivalent amount and that the Bank of France and the Bank for International Settlements would also be invited to participate and that if they or any other banks do participate, the participations of the Bank of England and the Federal

P92

Reserve Bank of New York will be reduced pro rata. In view of the urgency of the situation we would appreciate the Board's approval of the action of our Directors as soon as it may be convenient.

Harrison

445 pm

Pg2

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

X-6915

June 19, 1931.

SUBJECT: Action on Governors' Conference Topics.

Dear Sir:

There is attached hereto for your information, copy of a letter to the Secretary of the Governors' Conference, advising of the action taken by the Board on certain of the topics discussed at the Conference held in Washington on April 27-29, 1931.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT SAN FRANCISCO.

VOLUME 215
PAGE 111

C O P Y

X-6915-a

June 19, 1931.

Dear Mr. Strater:

This will acknowledge receipt of your letter of May 26th, enclosing copies of the Secretary's minutes of the Governors' Conference held in Washington on April 27th, 28th and 29th. The Federal Reserve Board has given consideration to the various topics discussed by the Conference and action has been taken as follows:

Topic II-D - Change in weekly Federal reserve bank statement. The Board has approved the suggestion that the special one-day certificates of indebtedness issued by the Treasury Department to Federal reserve banks to cover Treasury overdrafts on tax payment dates, be shown separately in the body of the weekly Federal reserve bank statement against the caption, "Special Treasury Certificates."

Topic II-E-1 - Payment of a sum equal to one or more months' salary to the widow, dependents, or estate of deceased officers or employees.

In connection with the first recommendation of the conference on this topic, the Federal Reserve Board has ruled that in the event of the death of an officer or employee of a Federal reserve bank, the salary of such officer or employee should be paid only up to the next succeeding pay day.

The Board has not yet acted, however, on the matters of an increase in group insurance for officers and employees at Federal reserve banks, and the establishment of annuity or pension plans by the individual banks.

Topic II-E-2 - Payment of salary in full or in part to officers or employees incapacitated on account of sickness or otherwise.

The Board has noted with approval the action of the Conference in voting that where the absence of officers or employees on account of sickness or other incapacitation exceeds the regular vacation period by thirty days, payment of salary during further leave of absence should be subject to approval by the Board of Directors and reported monthly to the Federal Reserve Board in accordance with the Board's letter of June 14th, 1928, (X-6069).

Supplementary Topic B. - Suggested policy in acting on applications of state banks and trust companies for membership.

The Board has adopted the proposed policy, in connection with its consideration of applications of state banks and trust companies for membership in the Federal Reserve System, that at the time of admission to membership the applicant bank shall be free from all known losses and depreciation so that on the date its membership becomes effective its statement will reflect as nearly as possible the value of its assets. In this connection, a letter is going forward today to all Federal Reserve Agents, requesting that they bring this action of the Board to the attention of their committees of directors which pass on applications, in order that they may be governed accordingly in making their recommendations to the Federal Reserve Board.

Topic I-D - Desirability of flexibility of interest rates paid on deposits and of bank dividends.

The Board has noted with approval the action and expressions of opinion of the Conference in regard to this topic.

Topic I-F - Possible desirability of amending the Federal Reserve Act so as to permit a Federal reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper.

Action on the resolution adopted by the Conference on this topic has been deferred by the Board for the time being.

Topic II-F - Advertising Federal reserve membership.

The Board has noted with approval the opinion of the Governors that Federal reserve banks could not with propriety give approval or support to any agency or organization soliciting subscriptions from banks and others for the purpose of explaining or advertising the benefits derived from membership in the Federal Reserve System.

No action is required by the Board on the other topics discussed at the Conference or on the various reports submitted by its committees.

A copy of this letter is being forwarded to the Governor of each Federal reserve bank for his information.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Mr. H. F. Strater, Secretary,
Governors' Conference,
Federal Reserve Bank,
Cleveland, Ohio.

B111

Memorandum to Mr. Hamlin.

Germany's reparations payments for the year beginning July 1, 1931 are approximately $425,000,000, of which about $167,000,000 is (65%) non-postponable, and $258,000,000 is postponable. The provisions of the Young plan relating to this can be found in the Bulletin for April 1930, page 181 and page 185. The amounts as given here are slightly different, because they are adjusted to our fiscal year, whereas, the original Young plan refers to annuity years beginning on April first.

The amount of nonpostponable annuity as given above includes the service of the Dawes loan of 1924 and the Young loan of 1930, neither of which would be affected by the President's proposal, because they have become obligations of the ~~German~~ German Government to the public, rather than to another government. The exact amount of these two services is hard to obtain, but they approximate $31,000,000. This amount, therefore, Germany would have to continue paying, and the total amount by which she is relieved is $394,000,000, $135,000,000 non-postponable and $259,000,000 postponable.

E. A. G.

June 24, 1931

VOLUME 215
PAGE 121

121

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 20, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser E.A.G.

GPO 2—8495

I transmit herewith a memorandum from Mr. Thorne, which gives a considerable amount of detail on reparations and war debt payments. The net result of his computations is given at the end of page three, which shows that if a five-year moratorium of fifty per cent of all items were adopted, Germany would gain during the five years $1,122,-000,000, while the United States would lose $750,500,000, France $207,000,000, Belgium $45,500,000, and Italy $22,500,000. England would be the only country which would in no way be affected, because her annual payment to us of $180,000,000 is approximately the same as her annual receipts from Germany, and from France and the other allies.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 19, 1931

To Mr. Goldenweiser

Subject: Reparations and War Debt Payments

From Mr. Thorne

GPO 2—8495

I. Foreign Debts Due the United States:

1. Present Value and Amount Outstanding
(In millions of dollars)

Countries	Present value on a $4\frac{1}{2}\%$ basis	Amount outstanding 1/31/31
Armenia		18.4
Austria		23.7
Belgium	225.0	404.7
Czechoslovakia	91.9	168.5
Estonia	11.3	16.4
Finland	7.4	8.6
France	1,996.5	3,865.0
Great Britain	3,788.4	4,398.0
Greece		31.7
Hungary	1.5	1.9
Italy	528.1	2,017.0
Latvia	4.7	6.8
Lithuania	4.9	6.2
Poland	146.8	206.0
Rumania	35.1	64.5
Russia		308.6
Yugoslavia	20.0	61.8
Total	6,862.2	11,608.7

2. Payments of Principal Countries to the United States Over Next Five Years
(Amounts in millions of dollars)

Countries	Rate of interest--per cent	End of payments	Principal, average (1932-1936)	Interest, average (1932-1936)	Total, average (1932-1936)
Belgium	$3\frac{1}{2}$	1987	1.4	5.2	6.6
Great Britain	$3\frac{1}{2}$	1984	31.0	149.0	180.0
France	1	1987	12.8	58.2	71.0
Germany					14.7
Italy	1/8	1987	12.7	2.5	15.2
Poland	3	1984	1.2	5.7	6.9
Total (Excl. Germany)			60.5	225.0	285.5
Total (Incl. Germany)					300.2

II. War Debt Payments to Great Britain:

1. Amounts Due Great Britain on War Loans (Principal and Interest)

By whom owed	In millions of dollars
British Colonies	640
France	2,845
Italy	2,713
Belgium	44
Russia	3,358
Poland	23
Czechoslovakia	2
Portugal	107
Yugoslavia	153
Rumania	137
Austria	53
Greece	102
Estonia	1
Armenia	5
Belgian Congo	17
Total	10,200

2. Payments of Principal Countries to Great Britain Over Next Five Years

Country	Average 5 year (In millions of dollars)
France	61
Italy	22
Germany	97
Total	180

III. Reparations Payments and Their Distribution:

1. The Distribution of German Payments (Yearly average, 1929-1965 amounting to $473,700,000) (In millions of dollars)

Country	Amount received from Germany	Amount turned over to United States
France	$294.3	$108.4
Great Britain	97.4	177.3
Italy	50.9	26.5
Belgium	27.5	11.7
Yugoslavia	20.0	1.1
Germany		16.7
Rumania	4.8	1.9
Portugal	3.1	
Japan	3.1	
Greece	1.7	0.3
Poland	0.12	6.9

2. Amounts Received from Germany and Amounts Paid to United States
Over Next Five Years
(In millions of dollars)

Principal countries	5 year average: Amounts received from Germany	Amounts paid to United States
Belgium	24.8	6.6
Great Britain	98.8	180.0
France	214.4	71.0
Germany		14.7
Italy	46.2	15.2

German reparations payments over the next 5 years would average $448,800,000 yearly.

IV. The Results of a 50 Per Cent Five Year Moratorium:

1. (In millions of dollars)

Principal countries	Amounts received	Amounts paid	Balance
		5 Year Average	
Belgium	24.8 (12.4)*	6.6 (3.3)*	+ 18.2 (9.1)*
Great Britain	180.0 (90.0)*	180.0 (90.0)*	....
France	214.4 (107.2)*	132.0 (66.0)*	+ 82.4 (41.4)*
Germany	....	448.8 (224.4)*	- 448.8 (-224.4)*
Italy	46.2 (23.1)*	37.2 (18.6)*	+ 9.0 (+4.5)*
United States	300.2 (150.1)*	....	+ 300.2 (150.1)*

*On basis of 50 per cent moratorium.

2. Total Amount Lost or Gained Over the Five Year Period
on the Basis of a 50 Per Cent Moratorium
(In millions of dollars)

	Amount gained	Amount lost
Belgium	.....	45.5
Great Britain	.....	.....
France	.....	207.0
Germany	1,122.0	.....
Italy	.....	22.5
United States	.....	750.5

CONFIDENTIAL (COPY FOR MR. HAMLIN)

*also Bk of Netherlands Oct 13.27

See Bk

For Gen'l list to date See Vol 116

January 22, 1930

CREDITS EXTENDED BY FEDERAL RESERVE BANKS TO EUROPEAN CENTRAL BANKS, TO PROMOTE MONETARY STABILIZATION ABROAD

	Bank of England	National Bank of Belgium	National Bank of Belgium
Date of agreement	4/20/25	1/	10/25/26
Date effective	5/14/25	1/	10/25/26
Total amount of credit	$300,000,000	$10,000,000	$41,000,000 (approximate)
Our share of credit	$200,000,000	$ 5,000,000	$10,000,000
Kind of credit	In gold	Purchase of bills	Purchase of bills
Expiration date	5/14/27	3/31/26	10/25/27
Renewals	None	None	None
Amount availed of	0	0	0
Our share	0	0	0

1/ In November 1925 we agreed to purchase $5,000,000 bills from Banque Nationale de Belgique upon fulfilment of certain conditions which were never fulfilled.

* Bk of Netherlands. 10 millions of bills Not used.

VOLUME 215
PAGE 138

P138

Mr. Noell

CREDITS EXTENDED BY FEDERAL RESERVE BANKS TO EUROPEAN CENTRAL BANKS TO PROMOTE MONETARY STABILIZATION ABROAD.

	Bank Polski	Bank of Italy	National Bank of Roumania	National Bank of Hungary
Date of agreement	10/18/27	12/20/27	11/16/28	6/29/29
Date effective	10/18/27	12/22/27	2/ 7/29	7/ 1/29
Total amount of credit	$20,000,000	$75,000,000 *	$25,000,000	$10,000,000
Our share of cr.	$ 5,250,000	$15,000,000	$ 4,500,000	$ 2,000,000
Kind of credit	Purchase of bills	Pur.of bills	Pur.of bills	Pur.of bills
Expiration date	10/13/28	12/22/28	2/7/30	10/1/29
Renewals	~~10/13/28~~ To 10/13/29 ~~expired~~	None	~~2/7/30~~ To 2/7/31 ~~expires~~	~~10/1/29~~ To 12/31/29 ~~exp.~~
Amount availed of:				
Total	0	0	0	$ 5,000,000
Our share	0	0	0	$ 1,000,000

*Approximate

CONFIDENTIAL (COPY FOR MR. [illegible]LIN)

CREDITS EXTENDED BY FEDERAL RESERVE BANKS
TO EUROPEAN CENTRAL BANKS

	Bank of Austria	Hungarian National Bank	German Reichsbank
Date of agreement:			
1st credit	May 30	June 18	June 26
2nd "			---
Date ~~approved by Board~~ effective:			
1st credit	May ~~15~~ 30	June 1~~8~~9	June ~~25~~ 26
2nd "	~~June 16~~	~~June 20~~	---
Amount of credit:			
1st credit	$14,000,000* ~~(approx.)~~	$10,000,000	$100,000,000
2nd "	$14,000,000* ~~(approx.)~~		---
Our share of credit:			
1st credit	$ 1,083,000	$ 2,000,000	$ 25,000,000
2nd credit	1,400,000	3,000,000	---
Kind of credit:			
1st credit	Purchase of bills	Purchase of bills	Purchase of bills
2nd "	" " "	" " "	---
Expiration date:			
1st credit	August 30	90 days	July 16
2nd "		90 days	---
Renewals:			
1st credit	---	---	To August 6*
2nd "	---	---	---
Amount availed of:			
1st credit	$14,000,000 (approx.)	$10,000,000	$100,000,000
2nd credit			---
Our share:			
1st credit	$ 1,083,000	$ 2,000,000	$ 25,000,000
2nd credit		$ 3,000,000	---

On July 24th the Board noted the action taken by the directors of the Federal Reserve Bank of New York in voting to authorize the officers to purchase, as and if it appeared necessary and desirable, up to $25,000,000 of sterling with the understanding that the funds would be used in the purchase of bills.

~~* Approved by the Board on July 17.~~

CONFIDENTIAL (COPY FOR MR. HAMLIN)

CREDITS EXTENDED BY FEDERAL RESERVE BANKS TO EUROPEAN CENTRAL BANKS TO PROMOTE MONETARY STABILIZATION ABROAD

	Bank Polski	Bank of Italy	National Bank of Roumania	National Bank of Hungary
Date of agreement	10/18/27	12/20/27	11/16/28	6/29/29
Date effective	10/18/27	12/22/27	2/ 7/29	7/ 1/29
Total amount of credit	$20,000,000	$75,000,000 1/	$25,000,000	$10,000,000
Our share of cr.	$ 5,250,000	$15,000,000	$ 4,500,000	$ 2,000,000
Kind of credit	Purchase of bills	Purchase of bills	Pur. of bills	Pur. of bills
Expiration date	10/13/28	12/22/28	2/7/30	10/1/29
Renewals	10/13/28 10/13/29 expired	None	2/7/30 2/7/31 expires	10/1/29 12/31/29 exp.
Amount availed of:				
Total	0	0	0	$5,000,000
Our share	0	0	0	$1,000,000

1/ Approximate

138

Sc th

COPY

Passed July 9, 1931.

The Governor brought up the telegram received from the Governor of the Federal Reserve Bank of New York, under date of July 2nd, on which the Board has not yet acted. It was decided to suspend action pending further developments.

After a full canvass of the situation, in which there was unanimity of opinion on the* principle of participation, it was, upon motion, voted that in order to insure prompt action should it become necessary in the absence of a quorum of the Board at the time the present or an amended proposal might come up for action, the Governor and such members of the Board as might be present in Washington be authorized to act for and on behalf of the Board, it being understood that any further participation with European central banks in the organization and extension of credits to central banks should conform to the character, safeguards and precedents developed in connection with previous participations in central bank credits by the Federal Reserve System.

------

* In minutes this reference was excluded. Record in copy.

VOLUME 215
PAGE 144

C 144

Form No. 131

COPY

Office Correspondence

FEDERAL RESERVE BOARD

Date July 9, 1931.

To Mr. Wyatt

Subject:

From Mr. Hamlin

2—8495

Dear Mr. Wyatt:

I have your memorandum dated July 8th on the subject of the ownership by the Mercantile Commerce Bank & Trust Company of stock of the Mercantile Commerce National Bank. You will find on page 6 of my memorandum the statement that the Board had no authority under the Act, as amended, to impose such a condition as to stock ownership, and could not enforce it "unless the purchase of said stock may have imperiled the financial condition of the state bank." In this case, it would seem conclusive that the holding of this stock by the state bank has not imperiled its assets, - as a matter of fact, no such contention having ever been raised. I would have no objection to this condition being imposed if the Board explained that it was merely for the purpose of ascertaining whether, as a fact, the proposed stock holding would injure the state bank, but such a condition, in my opinion, would be unnecessary, as the general condition as to change of assets would fully cover this.

Your observations under page 3 of your memorandum seem to me simply an arraignment of chain and group banking, over which Congress has given us no control. While I admit that there might be a case in which the purchase of stock would injure the state bank as a matter of

VOLUME 215
PAGE 148

148