The Papers of Charles Hamlin (mss24661)

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

VOLUME 220

Page 6
Earnings & Expenses of F.R. Banks.

Page 63
Memo to Governor Meyer from Mr. Hamlin re Bank of France.

Page 71
Memo to Mr. Hamlin from Mr. Parry re Dr. King's Article.

Page 81
Memo to Mr. Hamlin from Mr. Goldenweiser re Public Debt Retirement.

CONFIDENTIAL
Not for publication

B-553

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, OCTOBER 1931

Federal Reserve Bank	Month of October 1931									January - October 1931		
	Earnings from					Current expenses		Current net earnings		Current net earnings		Available for reserves, surplus and franchise tax*
	Dis-counted bills	Pur-chased bills	U. S. secur-ities	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	$35,587	$93,069	$62,239	$9,618	$200,513	$150,525	$156,268	$44,245	4.4	-$372,666	--	-$966,799
New York	284,774	325,899	296,240	51,089	958,002	544,544	567,850	390,152	7.1	-365,483	--	-2,798,334
Philadelphia	234,908	37,181	73,527	15,822	361,438	152,394	170,525	190,913	13.4	148,026	1.1	-630,237
Cleveland	189,706	81,763	74,372	17,649	363,490	210,736	234,091	129,399	9.8	-72,252	--	-805,935
Richmond	94,295	17,740	31,626	9,192	152,853	116,348	117,533	35,320	7.4	-260,706	--	-544,702
Atlanta	94,624	45,574	28,361	13,031	181,590	96,082	101,359	80,231	18.1	-85,991	--	-350,222
Chicago	114,384	154,075	156,599	44,695	469,753	277,916	281,636	188,117	11.8	15,005	.1	-962,875
St. Louis	42,578	37,449	44,605	3,574	128,206	111,524	112,846	15,360	3.8	-243,832	--	-445,670
Minneapolis	17,752	28,870	43,520	2,658	92,800	77,151	77,908	14,892	5.9	-26,810	--	-124,806
Kansas City	62,294	46,231	22,876	23,123	154,524	131,361	135,260	19,264	5.4	-196,018	--	-409,971
Dallas	54,322	29,582	37,350	8,436	129,690	106,982	114,091	15,599	4.4	-101,107	--	-3,457
San Francisco	198,002	101,465	89,292	12,109	400,868	180,955	220,849	180,019	18.7	-141,451	--	-724,815
TOTAL												
Oct. 1931	1,423,226	998,398	960,607	210,996	3,593,727	2,156,518	2,290,216	1,303,511	9.3			
Sept. 1931	581,335	590,571	878,656	154,253	2,204,815	2,080,247	2,181,830	22,985	.2			
Oct. 1930	563,699	305,625	1,373,396	130,960	2,373,680	2,164,962	2,295,364	78,316	.5			
Jan. -Oct. 1931	5,606,813	3,440,848	10,164,453	1,629,059	20,841,173	21,246,977	22,544,458	-1,703,285	--	-1,703,285	--	-8,767,823
1930	9,153,138	5,383,976	14,571,283	1,796,193	30,904,590	21,855,245	23,694,210	7,210,380	5.1	7,210,380	5.1	-762,759

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
NOVEMBER 10, 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.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Nov. 24, 1931.

To Governor Meyer

Subject:

From Mr. Hamlin

2—8495

Dear Governor Meyer:

In a letter from the State Department circulated this morning, containing a statement by Mr. W. E. Howell, Jr., Chargè d'Affaires of our Embassy in France, there appears the following statement:

> "Governor Moret's assistant mentioned yesterday to a member of the Embassy staff that the Bank of France has never been unduly concerned as to the strength and power of resistance of the dollar. Referring to recent reports in the press of formal written agreements entered into between the French and American banks of issue, this official stated that the policy of the Bank of France was in reality very simple, namely, that the bank will carry out a policy of close cooperation with the American institute, and that it will maintain its present gold deposits there, provided that the latter follow a conservative policy likely to uphold and maintain the dollar at its present value, and not resort to inflation. However, he expressed the opinion that in the event these conditions were not realized, the Bank of France would, in order to protect itself, consider it necessary to withdraw its American balances."

Mr. Howell also encloses a statement from a French Journal which he says appears to be inspired. In this statement appears the following:

> "What the Bank of France was able to promise was not to complicate the task of the Federal Reserve Board by the withdrawal of its deposits, on condition that the American currency authorities follow a policy that will effectively assure the defense of the dollar."

The above statement of Governor Moret's assistant taken with the apparently inspired article from the French paper, would seem to imply that certain promises were asked of the Bank of France by the Federal Reserve Bank of New York, and that certain promises were given by the Bank of France on certain conditions as to American policy.

Would it not be a good idea to ask Governor Harrison whether out of the conference with the Bank of France officials with his bank, there emerged any agreement, express or implied, as to the policy of the Federal Reserve System, or any request by the Federal Reserve Bank of the Bank of France not to withdraw its deposits?

Sincerely yours,

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

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Date November 24, 1931

To Mr. Hamlin

Subject: Dr. King's Article

From Mr. Parry

2-8495

LEP

Your note of November 23 requests examination of Dr. King's position as described in the attached clipping from the Boston Transcript of November 21.

No such volume of securities as the $5,000,000,000 mentioned by Dr. King could be purchased, under present conditions, by the Federal reserve banks. At the present time, the effective limit on the volume of securities that the system could purchase is set by the system's holdings of so-called "free gold," which amounted on November 18, as strictly computed, to $554,000,000. This amount could be increased, of course, by reduction to some lower level, perhaps to zero, of the reserve banks' holdings of notes, which amounted on this date to $327,000,000. The total of these two figures, or $881,000,000, may reasonably be taken to represent the maximum volume of securities that the system could purchase at the present time.

Purchase of $900,000,000 of securities, under present conditions, would have the effect of reducing the system's holdings of discounts by about $500,000,000 and its holdings of acceptances by about $400,000,000, without increasing at all the total volume of reserve bank credit outstanding or the member bank reserve balances--i.e., the "credit base." So large a reduction in discounts would put the banks in New York and other leading cities completely out of debt at the Federal reserve banks and would reduce the indebtedness of other member banks to the $200,000,000 level. That the member banks would then proceed, by going into debt to the reserve banks, to increase their total loans and investments, thus creating purchasing power and lifting prices, is a pure and probably unjustified assumption. The member banks in leading cities were almost altogether out of debt from March, 1930 to September, 1931 inclusive, yet at the end of this period their loans and investments were at about the same level as at the beginning and prices were down by more than 20 per cent.

I think this analysis indicates the principal fault in the position of those who support the proposal which Dr. King here advocates. They assume that the central bank can force credit into use even when the business outlook is bad, good borrowers hard to find, and commercial banks extremely cautious. The stock defense of this assumption, as evidenced for example in the Macmillan report, is that no central bank has ever put it to the test by buying securities in really enormous volume. It is to be noted, in opposition to this view, that extremely large purchases, by causing very low levels of interest rates in the open market and of rates paid on deposits, might actually defeat their own ultimate purpose. Investment would become less attractive, as compared with keeping money idle, and the earnings of banks, a factor in bank suspensions, would be adversely affected. Such conditions, as recent experience shows, encourage "hoarding" in one form or another. To the extent that "hoarding" is increased, the buying relied on to raise prices would not materialize, and in addition the general financial situation, including the status of prices, might be encouraged.

In any case, it is quite fair to say, as the Macmillan report does say, that proponents of the view under examination cannot give "a confident answer to doubters."

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

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Date November 28, 1931

To Mr. Hamlin

Subject: Public debt retirement

From Mr. Goldenweiser

2—8495

This is in reply to your inquiry of November 24 concerning debt retirements in excess of those required by law.

It appears that there is some uncertainty as to the volume of debt retirement legally required by Congress. Conversation with Treasury officials has disclosed the fact that the Treasury has never definitely determined the matter. The doubt concerns retirements made under certain acts of Congress authorizing the Treasury to accept United States bonds at par in payment of estate taxes, forfeitures, and the like, and interest owed by foreign governments. The Treasury has invariably budgeted to debt retirement obligations so received and has cancelled them, without determining whether this procedure was strictly mandatory from a legal standpoint. The volume of such retirements since 1919 has been approximately one billion dollars. The Treasury has included them in its computation of the "permanent debt reduction program."

The unquestionably mandatory retirements consist of the sinking fund, repayments of principal on debts owed the United States by foreign governments, and receipts from Federal reserve bank and Federal Intermediate Credit bank franchise taxes. In the table that follows, these are shown as the "statutory retirement program" and the sum of these plus the doubtful retirements is shown as the "Treasury retirement program."

The accumulated excess of actual over legally mandatory retirements is larger by a billion dollars if the statutory program is used than if the Treasury program is used. This discrepancy is likely to acquire polit-

Mr. Hamlin

No. 2 November 28, 1931

ical importance in the near future, and it is the wish of Treasury officials that no figures on excess retirements based on the statutory program be given publicity until they have had opportunity to explain their position in the matter. Mr. Bell has informed us that Mr. Mills will be glad to discuss the matter with you at any time.

PUBLIC DEBT RETIREMENTS, JUNE 30, 1919, to JUNE 30, 1931
(In millions of dollars)

	Gross Debt on June 30	Net Retirement During the Year	Mandatory Retirements		Excess of Actual Retirements over	
			Statutory Program	Treasury Program	Statutory Program	Treasury Program
1919	25,485					
1920	24,299	1,185	76	79	1,109	1,106
21	23,977	322	396	427	-74	-105
22	22,963	1,014	401	423	613	591
23	22,350	614	327	403	287	211
24	21,251	1,099	361	458	738	641
25	20,516	735	330	467	405	268
26	19,643	873	351	487	522	386
27	18,512	1,131	379	520	752	611
28	17,604	908	402	540	506	368
29	16,931	673	411	550	262	123
30	16,185	746	484	554	262	192
31	16,801	-616	440	440	-1,056	-1,056

Net retirements June 30, 1919 to June 30, 1931	8,684
Statutory retirement program	4,358
Treasury retirement program	5,348
Excess of actual retirements over statutory program	4,326
Excess of actual retirements over Treasury program	3,336

From June 30 to October 31 of this year the gross debt increased by $491,000,000. During these four months approximately $150,000,000 of retirements accrued under either retirement program. The excess of actual retirements over the retirement programs was therefore less by some $650,000,000 than on June 30. The excess of retirements over the statutory program was

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therefore about \$3,700,000,000 on October 31, while the excess over the Treasury program was about \$2,700,000,000.

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