

The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 227, FRBoard Members

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Office Correspondence

Date August 6, 1941

To The Files

Subject: _____

From Mr. Coe

m.p.c.

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

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Preliminary Memo for the Open Market Policy Conference, April 12, 1932.

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Earnings & Expenses of F.R. Banks, March 1932.

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Memo to Mr. Hamlin from Mr. Goldenweiser re probable costs of the Steagall plan for guaranteeing bank deposits.

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Reply to the Memo of Governor Harrison, and letters of February 6, and April 7, 1932.

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Notes for Mr. Hamlin re effects of gold imports on credit expansion.

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Memo to Mr. Hamlin from Mr. Smead re changes in bank loans and amount of domestic capital issues, 1926 to 1931.

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Letter to Mr. Harrison from Senator Glass re S. 4115.

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Draft recommended by F.R. Board on March 29, 1932, and draft suggested to Senator Glass by C. S. Hamlin, on February 10, 1932.

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The Bank of France and the New York Discount Rate. (Excerpt from letter of Governor Harrison to Governor Meyer)

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Memo to Mr. Hamlin from Mr. Wyatt re Digest of Steagall Bill.

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Memo to Mr. Hamlin from Mr. Goldenweiser re speculative loans.

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Memo to Mr. Hamlin from Mr. Smead re changes in bank loans and amount of domestic capital issues, 1915-1931.

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Memo to Mr. Hamlin from Mr. Smead re changes in member bank security loans in 1920-21, when F.R. Banks had a 7 per cent discount rate.

PRELIMINARY MEMORANDUM FOR
THE OPEN MARKET POLICY CONFERENCE, APRIL 12, 1932.

Since the meeting of the Open Market Policy Conference on February 24 and 25, U. S. Government securities have been purchased at the rate of \$25,000,000 a week, in accordance with the authorization given at that meeting. The funds paid out through these security purchases have been supplemented by a substantial return flow of currency, and also by a small gain of gold, with the consequence that member bank indebtedness has been reduced by \$200,000,000. The following table summarizes the principal gains of funds by member banks between February 24 and March 30, and the disposition of the funds so received.

(In millions of dollars)

Sources of funds received by banks:

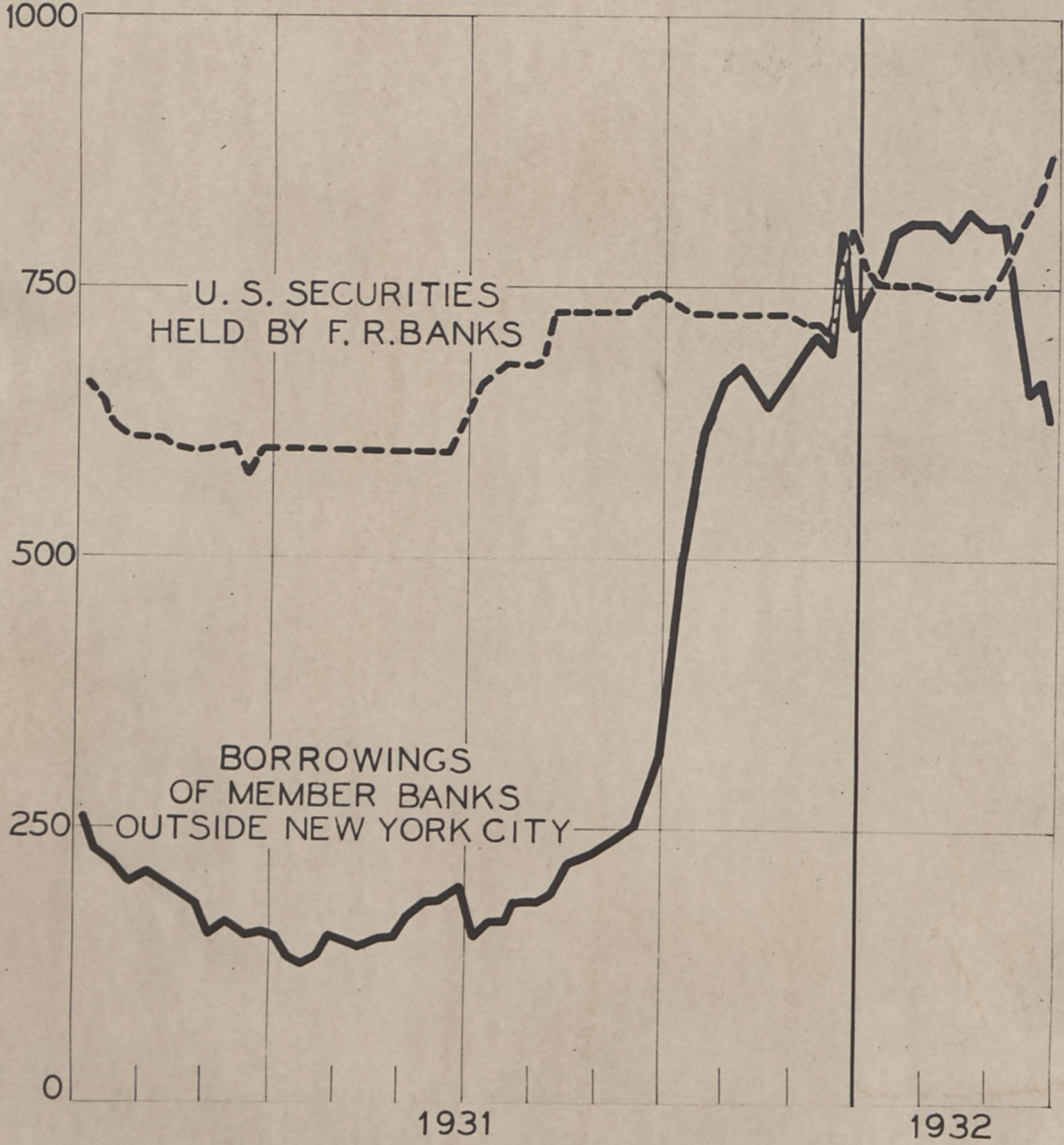
F. R. purchases of U. S. securities - - - - -	144
Net retirement of currency - - - - -	134
Increase in gold stock - - - - -	46
Reduction in Government deposits in F. R. Banks - - - - -	21
Total - - - - -	<u>345</u>

Disposition of funds:

Reduction of member bank indebtedness - - - - -	200
Retirement of bills from F. R. holdings - - - - -	75
Increase in member bank reserves - - - - -	65
Miscellaneous - - - - -	5
Total - - - - -	<u>345</u>

As anticipated, the easier conditions which have resulted from the System's purchases of Government securities and other causes have resulted in the restriction of offerings of bills to the Reserve Banks, so that the System's bill holdings have been reduced by maturities from \$133,000,000 to \$58,000,000, including foreign currency bills. The gold outflow, which at the time of the last Conference was expected to continue, ceased shortly thereafter and has been followed by a moderate inflow of gold, so that none of the funds paid out through the purchase of Government securities up to April 6 was required to offset gold losses. Within the

MILLIONS OF DOLLARS



past week, however, there have been several developments, including the publication abroad of false rumors concerning American institutions and conditions in this country, which have unsettled confidence again, and some new outflow of gold has occurred.

Question was raised at the time of the last Conference concerning the possibility of obtaining a distribution of the funds put out in the New York money market through the purchase of Government securities. Due largely to loans made by the Reconstruction Finance Corporation and to other Treasury disbursements, the desired distribution of funds has been successfully accomplished. Furthermore, the benefits of the return flow of currency have been widely distributed. The distribution of the decline in member bank indebtedness has been as follows:

(In millions of dollars)

F. R. Discounts on -

<u>District</u>	<u>Feb. 24</u>	<u>Apr. 6</u>	<u>Decline</u>
Boston	39	34	5
New York	169	131	38
Philadelphia	123	75	48
Cleveland	121	94	27
Richmond	35	31	4
Atlanta	48	35	13
Chicago	72	49	23
St. Louis	22	18	4
Minneapolis	15	9	6
Kansas City	39	33	6
Dallas	15	11	4
San Francisco	<u>138</u>	<u>115</u>	<u>23</u>
Total	<u>835</u>	<u>635</u>	<u>200</u>

In addition to the reduction in borrowings from the Reserve Banks, the borrowings from New York City correspondent banks by banks in other parts of the country have also been substantially reduced. Between February 24 and April 6 the loans of New York City reporting banks to banks in other parts of the country were reduced from \$358,000,000 to \$294,000,000. From the high point in such loans reached early in February, the reduction has

amounted to approximately \$105,000,000. The repayment of these loans involves a movement of funds to New York from other districts, which has partly offset the withdrawals of funds from New York by the Treasury, and has been partly responsible for the accumulation of a moderate excess of reserves in the New York banks recently.

The reduction in the indebtedness of banks outside of New York, and the comfortable position of New York City banks notwithstanding the heavy withdrawal of funds from New York by the Treasury, have tended to retard the decline in member bank credit and in bank deposits, but do not as yet appear to have stopped the decline. Basic commodity prices have declined to new low levels in recent weeks, and the volume of business and employment has shown considerably less than the usual spring expansion. Furthermore, uncertainties concerning Congressional action with respect to taxation and the balancing of the national budget, and proposals of large new currency issues, have had a disturbing influence. As a result of these adverse factors, security prices have recently shown acute weakness, especially the lower grade bonds, and the return flow of hoarded currency appears to have been checked for the moment.

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B-742

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MARCH 1932

Federal Reserve Bank	Month of March 1932						Jan. - Mar. 1932			Jan. - Mar. 1932			
	Earnings from					Total	Current expenses		Current net earnings		Current net earnings	Ratio to paid-in capital	Available for reserves, surplus and franchise tax*
	Dis-counted bills	Pur-chased bills	U. S. secur-ities	Other sources	Exclusive of cost of F.R. currency		Total	Amount	Ratio to paid-in capital	Amount			
									Per cent		Per cent		
Boston	\$105,643	\$21,493	\$115,095	\$9,329	\$251,560	\$140,490	\$147,823	\$103,737	10.6	\$359,078	12.4	\$182,371	
New York	368,716	117,155	684,245	39,163	1,209,279	503,033	527,568	681,711	13.5	2,182,536	14.6	1,297,621	
Philadelphia	289,095	24,118	134,096	13,632	460,941	150,973	160,909	300,032	21.7	970,456	23.8	717,639	
Cleveland	325,016	23,578	150,309	21,985	520,888	195,240	204,056	316,832	26.1	938,464	25.9	703,765	
Richmond	105,102	16,520	34,298	11,899	167,819	109,578	110,057	57,762	12.9	182,341	13.6	105,142	
Atlanta	113,684	17,258	25,894	6,211	163,047	96,339	103,031	60,016	14.3	251,406	20.1	176,023	
Chicago	176,122	47,875	245,766	39,695	509,458	268,499	269,827	239,631	16.1	838,103	19.0	569,140	
St. Louis	56,804	13,379	57,695	7,975	135,853	108,469	109,282	26,571	7.0	55,273	4.9	-18,524	
Minneapolis	31,639	9,533	64,056	3,088	108,316	69,012	69,380	38,936	15.6	109,484	14.9	64,495	
Kansas City	105,575	13,580	45,427	22,880	187,462	127,296	130,026	57,436	16.5	152,762	14.8	90,259	
Dallas	41,657	11,323	61,182	3,933	118,095	95,890	96,934	21,161	6.2	73,053	7.2	8,767	
San Francisco	369,273	38,295	91,369	21,140	520,077	178,687	184,432	335,645	35.5	947,231	33.9	771,035	
TOTAL													
March 1932	2,088,326	354,107	1,709,432	200,930	4,352,795	2,043,506	2,113,325	2,239,470	16.9				
Feb. 1932	2,377,865	463,991	1,306,728	244,868	4,393,452	2,072,423	2,204,089	2,189,363	17.5				
March 1931	436,994	172,067	1,124,917	111,681	1,845,659	2,100,377	2,262,167	-416,508	-				
Jan.-Mar. 1932	6,934,595	1,492,144	4,395,286	791,884	13,613,909	6,240,112	6,553,722	7,060,187	18.0	7,060,187	18.0	4,667,733	
1931	1,597,860	654,300	3,597,554	340,559	6,190,273	6,420,329	6,857,458	-667,185	-	-667,185	-	-2,654,179	

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

APRIL 12, 1932

*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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Office Correspondence

FEDERAL RESERVE
BOARDDate April 11, 1932 *See RR*To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser
Goldenweiser

• • • 2-8495

I transmit herewith a memorandum from Mr. Blattner in reply to your inquiry about probable costs of the Steagall plan for guaranteeing bank deposits.

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Office Correspondence

FEDERAL RESERVE
BOARD

Date April 11, 1932

To Mr. Goldenweiser

Subject: Cost of the Steagall Plan

From Mr. Blattner *fnB*

2-8495

Mr. Hamlin's memorandum of April 5 asks that we make an estimate of what the Steagall Bill would have cost the Federal reserve system had it been in effect the past two years.

If we assume that the Guaranty Fund provided for in the bill had gone into effect on January 1, 1930, and that bank failures would have been as experienced, the Fund would have had to deal with the suspension of about 700 member banks in the two years 1930 and 1931. These suspending banks had deposit liabilities of about \$1,100,000,000. The Guaranty Fund might under the terms of the bill have called for as much as \$450,000,000 from Federal reserve banks and member banks during the two years. A large proportion of this sum, if not all, would in all probability never have been recovered by reserve or member banks.

Under the bill the Guaranty Fund would draw from the Treasury all franchise taxes paid to the Federal Government by the Federal reserve banks since their organization, amounting to \$147,000,000. The Federal reserve banks also are to contribute at the outset \$150,000,000 from their surplus. Thus, the initial working fund would have been about \$300,000,000, if it had been established as of January 1, 1930.

With the failure of the National Bank of Kentucky and the Bank of the United States in the closing weeks of 1930, depositors of member banks suspending during the year would have then had claims of \$380,000,000 against the Fund. The Fund has twenty months within which to pay depositors in full after a bank failure, though small depositors must be paid in ^{eight} three months. It is not possible to say what proportion of the \$380,000,000 in-

April 11, 1932

volved in the year 1930 could have been raised within twenty months through the liquidation of the failed banks' assets. Experience of recent years tends to show that on the average not more than 60 per cent of the amount of the deposits of a bank at failure is recovered from the liquidation of the assets within twenty months or longer.

Heavy failures of member banks in 1931 added to the failures of 1930 would have put the Guaranty Fund at the place where they would have needed resources in addition to the original \$300,000,000. Member bank suspensions in 1931 by quarters ran as follows:

1931	Number	Deposits (In millions)
First quarter	65	46,914
Second quarter	82	109,939
Third quarter	121	202,857
Fourth quarter	249	373,818
	517	733,528

Thus by the end of the first half of 1931 the Fund would have become liable to depositors for \$158,000,000 in addition to the indebtedness of \$380,000,000 already accumulated, and the ensuing three months would have added \$203,000,000 in liabilities. It is likely that sometime early in 1931 the Guaranty Fund, having exhausted the original \$300,000,000, would have been drawing on its next line of resources.

Under the bill, the Fund could draw an original assessment from member banks of \$200,000,000, in proportion to a member bank's deposits; and twelve months after the payment of this sum it could in addition call on the member banks for \$100,000,000 annually in proportion to member banks' earnings. So in all by the end of the year 1931 it might have thus called in \$300,000,000 from member banks.

Mr. Goldenweiser

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April 11, 1932

The whole member banking system earned only about \$13,000,000 in the year 1931, but presumably cash or surplus assets of the going banks might have been liquidated to pay depositors of the failing banks.

With \$1,114,000,000 of member bank deposits involved in failures in the years 1930 and 1931, estimates indicate that 40 per cent or perhaps \$446,000,000 would never have been recovered from the assets of the liquidated banks and would have to be absorbed by the Guaranty Fund in the long run.

The income and outgo of the Fund for the two years might be put in tabular form as follows:

Income:

Treasury contribution	\$147,000,000	
Federal reserve bank contribution	150,000,000	
Original levy on member banks	200,000,000	
One annual levy on member banks	<u>100,000,000</u>	
		\$597,000,000

Permanent Disbursements: (temporary outgo might be much larger)

40 per cent of \$1,114,000,000 of deposits involved in failures	<u>446,000,000</u>
Difference between income and disbursements	151,000,000

Whether reserve banks or member banks would have ever gotten any of the differential of \$150,000,000 back would, of course, depend on the bank failure record of the year 1932 and subsequent years.

X
The figure of 40 per cent loss to depositors in failed banks is based on the computations of the Committee on Branch, Group, and Chain Banking, and represents the experience of such banks failing since 1921 as have been fully liquidated in the interim. It is not possible to predict, of course, what losses to depositors will be in banks which failed of recent months. It may be higher than 40 per cent; it may be lower.

April 14, 1932.

C.S. Hamlin.

THE GLASS BILL.

Reply to the Memorandum of Governor Harrison, and letters of February 6, and April 7, 1932.

On April 7, 1932, Governor Harrison sent to the Banking and Currency Committee of the Senate, a memorandum commenting on each section of the original Glass bill, - Senate 4115 - and on the amendments suggested by the Federal Reserve Board.

He also enclosed a copy of a letter sent by him to Senator Glass dated February 6, 1932.

In the letter of February 6, Governor Harrison stated that he would withhold detailed comments on the bill pending the report thereon of Dr. Goldenweiser and Dr. Burgess.

He did, however, discuss the provisions as to open market operations and some others, and strongly attacked the increased power given to the Federal Reserve Board, referring to it as a politically appointed body.

He stressed the necessity for autonomy in the Federal reserve banks and made three suggestions as to the amendments to the Federal Reserve Act.

These suggestions were:

1. To reduce the number of directors of each bank so as to concentrate responsibility and to encourage supervision and management through the experienced directors. (Italics mine).
2. A grant of power for removal of incompetent bank officers.
3. Restriction upon borrowing by bank officers except with approval of a committee of directors.

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The first suggestion will be taken up later.

As to the second suggestion, it will suffice now to state that in the memorandum, Governor Harrison states that this should not be done at the present time.

II.

In the letter of April 7, 1932, accompanying the memorandum, Governor Harrison admits "certain past defects, and the need for provision for possible future abuses," but in another part of the letter states that "there do not appear to be any parts of the Glass bill for which there is an imperative need for immediate passage."

The only exceptions made to this sweeping condemnation are the Federal Liquidating Corporation and the branch banking provision; the former, he states, might be helpful and the latter he states would be helpful.

He reaffirms the position taken by the Federal Reserve Bank in 1929 that only the discount rate and open market operations can effectively regulate the price and total volume of credit.

He severely criticises the attempt of the Federal Reserve Board to control through direct action the loan or investment policies of individual banks.

He admits, however, that direct action has its uses in dealing with individual banks using more than their share of Federal reserve credit, but he asserts that it is neither an effective nor suitable method for general control of credit or the uses to which credit may be put, involving as it does an assumption of responsibility for the management of individual banks which could not be effectively fulfilled.

I shall not undertake in this connection to go over the arguments for

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or against direct pressure. It will be sufficient to point out that the Federal Reserve Bank of New York, in 1929, wished to increase discount rates to prevent a runaway market which it believed was imminent; that the Board refused to increase the discount rate but kept in the 5% rate, exercising direct pressure upon the member banks to control their speculative loans, thus taking back part of the Federal reserve credit which had seeped into speculative markets; that the runaway market feared by the Federal Reserve Bank did not eventuate; that on the contrary, during the period of direct pressure, - from early in February to early in June, 1929, - the total bills and security holdings of the Federal Reserve Bank of New York steadily declined, while its reserve ratio steadily increased; that for the whole System, Federal reserve credit declined 193 millions during this period; that the large gold imports were kept by this direct pressure from swelling the member bank reserves and were used to take down acceptances, thus avoiding a tremendous further expansion of member bank credit; that member bank reserves in fact declined 68 millions during this period.

The fact is that direct pressure under the 5% rate was so successful that about the first of June, 1929, the Federal Reserve Bank informed the Federal Reserve Board that there was shortly to be expected a commercial need for expansion of Federal reserve credit; that the member banks were afraid to increase their borrowings, and that an easing policy would soon be essential.

Governor Harrison, in his letter, criticises Section 3 of the Glass bill, as amended by the Federal Reserve Board, perhaps more severely than any other Section of the bill. He absolutely opposes the grant of power in

this Section to close the discount window to banks abusing the discount privileges and to suspend such banks from further use of Federal reserve facilities.

He also objects to the duty imposed by this Section on Federal reserve banks to keep themselves informed as to the loan and investment policies of the member banks, (the imposition of which duty it may be parenthetically stated was strongly recommended by the Federal Advisory Council in February, 1931.)

He states that the powers granted and the duties imposed by this Section would be ineffective, would involve responsibilities which neither the Federal reserve bank nor the Federal Reserve Board could fulfill, and that the assumption of such powers would be harmful to the member banks and to the Federal Reserve System as a whole.

In this connection, I would point out that both Governor Harrison and Mr. Owen D. Young, who signed the memorandum stating the above objections, took a very different view of the matter in their testimony before the Sub-committee of the Senate.

On January 20, 1931, Governor Harrison suggested to the Sub-committee that power should be given to the Federal reserve banks, or the Federal Reserve Board, to suspend a member bank from any or all of the privileges of membership, during a given period, in the event that the bank has not conducted itself in the safest way for the depositors. (Testimony, p. 46).

On February 4, 1931, Mr. Owen D. Young stated to the Sub-committee that the Federal reserve bank should have the power to limit or refuse rediscount even of eligible paper, and to suspend other privileges of membership, if the banking practices of any particular bank were, in its judgment, unsound, and

therefore subjected its depositors to unreasonable risk, either as to liquidity or security, with a right of appeal on the part of the member bank in case the Federal Reserve Bank exercised its power unfairly, and that if the unsound practices were persisted in, the Federal Reserve Board, on complaint of any Federal reserve bank, might expel the bank from membership. (Testimony, p. 356).

Both Governor Harrison and Mr. Young were asked by the Chairman of the Sub-committee whether under existing law the Federal reserve banks had not the right to refuse to discount eligible paper.

Governor Harrison replied that that had always been his opinion, and that he had so advised the Federal Reserve Board when he was its Counsel, but that this right had been denied. (Testimony, pps. 47, 48.)

Mr. Young told the Sub-committee that the directors had never been able to agree that the power was clearly enough expressed to warrant such action by the Board of Directors; that he believed the power now existed but that such an extraordinary power and the obligation to execute it, should be made clear. (Testimony, p. 363).

The Glass bill, as amended, makes explicit these grants of powers, and yet the memorandum, signed by both Governor Harrison and by Mr. Young, positively objects to such power as harmful both to the member banks and to the Federal Reserve System!

It is possible that the Federal reserve bank may claim that it desired this power only over individual banks borrowing more than other banks of their class. This, however, would be tantamount to saying that if any one

bank loses its head in the way of speculative loans, they want power to correct it, but if all banks are infected with the speculative mania, they desire no power except their existing powers over the discount rates on commercial paper.

The power vested in the Federal Reserve Board by Section 3 of the Glass bill, would, of course, be exercised only on individual banks, but it is a power which could not be defeated by proof that not one but all banks are possessed by the speculative mania.

III.

Analysis of Memorandum.

The memorandum comments on each section of the bill in detail.

It opposes every section of the original bill except Section 16, relating to a larger capital for future national banks, which it states it prefers to the draft submitted by the Federal Reserve Board.

It approves in general the Federal Reserve Board's recommendations as to 22 sections of the original bill, but states that of these 22, 13 are not now necessary, and should be postponed for future consideration.

Among these latter were:

Most of the recommendations as to affiliates, and especially the divorce of affiliates.

The 90-day clause for member bank collateral notes secured by eligible paper.

Supervision of holding companies.

Removal of officers and directors of member banks.

The memorandum opposes the following recommendations of the Board:

The power to suspend member banks for abuse of Federal reserve facilities.

The Board's bill covering new reserve provisions.

The separation of bank and affiliate stock.

The divorce of affiliates, "the desirability of which at any time is doubtful".

IV.

The Glass bill, with the amendments of the Federal Reserve Board, is designed to give some assurance to depositors and the public that the speculative excesses culminating in the crash of 1929 will **not** be repeated.

The speculative craze which swept over the country will take its place in history along with the tulip mania and the South Sea bubble.

The crash of 1929 was probably one of the worst in the world's history.

It represented a successful raid of the speculating public upon the banks of the country.

The banks were unable to stem this raid. On the contrary, they permitted it to increase by undue and excessive loans to their customers.

The final crash brought ruin to thousands and thousands of our people and was felt over the whole world.

The Glass bill offers a remedy by giving the Federal Reserve Board the right and duty to protect the public interest against any such future mania of speculation.

The Federal Reserve Bank of New York admits past defects and the need for some provision for future possible abuses. It suggests, as

stated before, that the directors of each bank be reduced in numbers "so as to concentrate the responsibility and to encourage supervision and management through the experienced directors".

"Through the experienced directors"! To what directors does this refer?

At first blush it would seem to refer to the Federal reserve bank directors. Such a change, however, would disrupt the Federal Reserve System by removing all directors representing the public interest, as distinct from the member banks.

I assume, however, that the reference is to the directors of the member banks.

Coupled with this recommendation is a recommendation limiting borrowings by bank officers, and also giving power of removal of incompetent bank officers.

The memorandum, however, states that the latter suggestion should not be considered at the present time and, presumably, the same suggestion would apply to the other recommendations.

V.

To sum up:-

The Federal reserve bank admits abuses in the past, and admits the necessity for provision against possible future abuses, but it opposes the present bill, and in effect takes the position that practically no legislation is imperatively demanded at the present time.

The correspondence contains the statement that the business in the United States is more dependent upon the securities market (called in the correspondence the "capital market") than upon the banks, and that business recovery is dependent upon the proper functioning of the capital market. There may be an element of truth in this statement as regards what is popularly known as "Big Business", but it is certainly not true as to that large volume of business which is absolutely dependent upon short term credit extended by banks under the auspices of the Federal Reserve System.

It should not be forgotten that it was the secession of "Big Business" from the banks, and the issue of their own securities on specially favorable terms beginning in 1927, and later their action in pouring the funds thus obtained into the maelstrom of speculation, that was a major cause in the final collapse of 1929. Yet the attempt of the Glass bill to prevent a recurrence of these practices, is condemned as being injurious to the capital market, upon the prosperity of which the revival of business activity is stated to depend.

The conclusion irresistibly to be drawn from the correspondence and memorandum is that the need for changes in the Federal Reserve System must yield and give precedence to the needs of the capital market, and that any changes in the Federal Reserve System which might affect the capital market would be most unfortunate.

The Glass bill as amended by the Board by placing restraint upon future mad speculation, will ultimately place the securities market upon a much sounder foundation than exists today, and the argument that

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legislation bringing about this ultimate result should be postponed, seems to be not sound. It is a customary objection to all remedial legislation that it should be postponed, and the time will never come when all will agree that the task should be then undertaken.

The Federal Reserve Bank, as before stated, denies that there is a necessity for legislation on any subject in the Glass bill, except possibly the Liquidating Corporation and branch banks. It takes the position squarely that when legislation is enacted, it should give the Federal reserve banks more complete autonomy, free from all but very general supervision by the Federal Reserve Board, but it makes clear that if given this autonomy, it will use it in meeting another speculative mania solely by the exercise of the discount rate and open market operations, and that too even though all of the member banks are feeding the fire of unbridled speculation by undue and excessive loans to their customers on stock exchange collateral.

I venture to express the view that the public demands something more than this, and that if such a wave of speculation should sweep over the country again, it will find the Federal Reserve Board charged with such power that its future warnings in the public interest will be received with respect and carried out with promptness.

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See AM

April 9, 1932

NOTES FOR MR. HAMLIN

See also 226-85

The prosperous years of expanding business activity from 1922 to 1929 would have been impossible without a corresponding expansion in bank credit. The Federal reserve system is often criticized for failing to check this upward movement of credit and, on the contrary, for facilitating it. The feeling is that the present depression would be much less acute if business and credit had not developed at so rapid a pace from 1922 to 1929. In looking back over the past, it is easy to think that if a somewhat different policy had been followed our difficulties might have been much less. Taking the period as a whole, however, it is difficult to see how the Federal reserve system could have checked this expansion of credit.

Effects of gold imports on credit expansion

Gold was coming into this country in large volume and could not be absorbed, as it had been in 1920 and 1921, in liquidating the indebtedness of member banks, because there were not enough discounts to liquidate. This inflow of gold, continuing with only short interruptions to May, 1927, and again in 1929, provided a basis for credit expansion by member banks without increasing their requirements for reserve bank credit. ¹⁹²²⁻¹⁹²⁹ During this period the monetary gold stock of the country increased by \$481,000,000, and member bank reserve balances increased by \$577,000,000, so that all the funds created through gold imports during the period, and even more, went into member bank reserve balances, where ^{they} ~~it~~ constituted a basis of credit expansion. Member bank credit increased by \$11,500,000,000 during this period, or at an approximate rate of \$20.00 of member bank credit for \$1.00 of member bank reserves. That the Federal ~~system~~ ^{country} ~~contracted~~ to some extent the inflow of gold during this period taken as a

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whole, is shown by the fact that Government security holdings of the reserve banks declined by \$247,000,000, while member bank borrowings increased by \$380,000,000.

After May, 1927, increased foreign borrowings in the United States and the prevalence of much higher money rates abroad caused a reversal of the gold movement, with the consequence that between the middle of May, 1927, and June, 1928, the country's gold stock was reduced by \$600,000,000. The firming effect of these exports of gold on the domestic credit situation was at first offset by the Federal reserve system through the purchase of securities, but a continuous growth of loans on securities in the United States caused the system in the early part of November, 1927, to discontinue these purchases. Beginning with January, 1928, the system adopted a positive firm-money policy expressed through the sale of Government securities and through advances in discount rates in the course of 1928 from 3 1/2 per cent to a level of 5 per cent at eight of the reserve banks, and to 4 1/2 per cent at the four Western banks. Buying rates for bills also were advanced. The firmer money conditions in this country, however, brought counteracting forces into play and once more gold began to flow into this country.

As I look back on the course of financial events in recent years ~~from the~~ from the depth to which we have been brought recently, I can see that we may have been over-enthusiastic in security purchases in 1924 and over-solicitous about the fate of the gold standard in 1927, but it seems to me that, taking the period as a whole, there is little that one can criticize in the conduct of the system. The principal reason for credit expansion during this period

was the inflow of gold from abroad, which accentuated any mistakes that we may have made and neutralized the effects of ~~some~~^{sound} policies that we adopted. In the light of what we knew currently, it is hard to see how we could have changed our policies in a way that would have altered the course of events. If we had^{it} to do over, we would no doubt act differently in the light of what we have learned by extremely hard experience. But then -- others will probably have that to do, and to them the experience will not have the same compelling character that it has for us. That is why, to end on a philosophical note, human progress is so painfully slow and halting.

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Office Correspondence

FEDERAL RESERVE
BOARDDate April 9, 1932*See Ans*To Mr. Hamlin

Subject: _____

From Mr. Smead

... 2-8495

Smead

With regard to your request for information as to whether member banks in 1929 charged customers higher rates on paper secured by stock exchange collateral than on commercial loans I find that the best information available on this subject is shown in the table on page 781 of the December 1929 Federal reserve bulletin. You will note from this table that it was the practice of banks in a number of cities to charge higher rates on loans secured by prime stock exchange collateral than on other loans. This was particularly true for banks in Chicago, Boston and San Francisco.

As stated in the table, the rates shown are those at which the bulk of the loans of each class were made by about 200 representative banks.

(Table shows loans secured by stock exchange collateral were about 1/2 % higher rate)

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Office Correspondence

FEDERAL RESERVE
BOARDDate April 14, 1932 *see Au*To Mr. HamlinSubject: Changes in bank loans and
amount of domestic capital
issues, 1926 to 1931From Mr. Smead

2-8495

In accordance with your telephone request of this morning we have prepared the attached table which shows the growth in total loans (excluding investments) of member banks and of all banks in the United States, by years, from 1926 to 1931, and the amount of new corporate issues of stocks and bonds during the same period.

You will note that the new issues of corporate securities were much larger in every year than the growth in bank loans, also that during 1930 and particularly in 1931 bank loans declined materially but that a substantial volume of new corporate issues continued to be floated in 1930 and even in 1931 amounted to \$1,500,000,000. Such information as is available indicates that the amount of corporate bonds (not including stocks) outstanding was about \$13,000,000,000 in excess of total bank loans in June 1931 and only about \$6,500,000,000 less than total loans and investments of all banks in the United States.

The reported new issues of corporate stocks and bonds include an unknown but probably substantial amount of duplication. For example, a substantial portion of the reported new issues during 1928 and 1929, particularly, were put out by investment trusts, which used the proceeds to invest in other corporate securities. The flotation of securities by a holding corporation for the purpose of purchasing and carrying securities of an industrial corporation does not, of course, provide industry with additional funds.

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CHANGES IN BANK LOANS AND AMOUNT OF DOMESTIC CAPITAL ISSUES,
1926 to 1931

(In millions of dollars)

Year	Bank Loans				Domestic Capital Issues		
	Amount on December 31		Change for the year		(Corporate issues exclusive of refundings)		
	Member banks	All banks	Member banks	All banks	Total	Bonds and notes	Stocks
1925	21,996	35,640	-	-			
1926	22,652	36,759	+ 656	+ 1,119	3,754	2,667	1,087
1927	23,886	38,407	+1,234	+ 1,648	4,657	3,183	1,474
1928	25,155	40,763	+1,269	+ 2,356	5,346	2,385	2,961
1929	26,150	41,898	+ 995	+ 1,135	8,002	2,078	5,924
1930	23,870	38,135	-2,280	- 3,763	4,483	2,980	1,503
1931	19,261	31,616	-4,609	- 6,519	1,550	1,239	311

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 14, 1932

See Am

April 9, 1932.

COPY.

Dear Governor Harrison:

Permit me to acknowledge your courtesy in sending me a copy of your extended letter to Senator Norbeck, chairman of the Banking and Currency Committee of the United States Senate, in criticism of S.4115. I have read and re-read with scrupulous care the letter in question and have noted with considerable interest that it has the unanimous approval of the board of directors of the Federal Reserve Bank of New York.

You may be sure that I am in no-wise astonished at the nature of the letter nor at the approval of the New York bank board. I am, however, distinctly gratified, as I feel confident our committee will be, that you and your board have thus stated in unequivocal terms the misconception of the Federal Reserve banking act which so long has been reflected in the extraordinary policies pursued by the New York bank with respect to both domestic and foreign transactions. It is truly a notable document. In my considered view it constitutes a challenge to statutory authority and an unyielding antagonism to any restraining influences whatsoever.

For my part the challenge will be squarely met and the issue distinctly joined in the United States Senate.

Sincerely yours,

(Signed) CARTER GLASS.

Hon. G. L. Harrison,
Governor of the Federal Reserve Bank,
New York City, New York.

B
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See Act

Comparison of Section 3, Glass Bill.

Draft recommended by Federal Reserve Board on March 29, 1932, and draft suggested to Senator Glass by C. S. Hamlin, on February 10, 1932.

Federal Reserve Board Draft:

"The Federal Reserve Board may prescribe regulations further defining within the limitations of this act the conditions under which discounts, advancements and accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The Chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

Draft suggested by C.S.H.:

"In order to secure a more effective supervision of banking in the interest of bank depositors and of the public, the Federal Reserve Board may prescribe regulations defining and regulating the use of the credit facilities of the Federal Reserve System within the limitations of this Act as amended.

"Each Federal reserve bank shall keep itself informed of the loan and investment policies of its member banks, and for this purpose may call upon such banks from time to time for reports.

"The Chairman of the Board of each Federal reserve bank shall report to his bank and to the Federal Reserve Board any use made by a member bank of Federal reserve facilities, directly or indirectly, in connection with any loans made by it, whether commercial, speculative, real estate, or otherwise, which is undue or excessive under this Act as amended, and the regulations of the Federal Reserve Board.

"Each Federal reserve bank may, in its discretion, after due warning, suspend from the further use of Federal reserve privileges any member bank abusing said facilities, as above provided.

"If, in the judgment of the Federal Reserve Board, any Federal reserve bank fails to take proper action under this provision, the Board may, by an affirmative vote of not less than five of its members, enforce this provision against any offending member bank or banks.

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The Bank of France
and
The New York Discount Rate.

1. October 3, 1931.
New York Herald-Tribune favors a moderate increase. 218 - 14.
2. October 9, 1931.
New York increases to $2\frac{1}{2}\%$. 218 - 52.
3. October 14, 1931.
Visit of officers of Bank of France to Federal Reserve Bank of New York. 218 - 94.
4. October 16, 1931.
New York increases to $3\frac{1}{2}\%$. 218 - 106.
5. October 21, 1931.
No understanding as to discount rate policy with the Bank of France.
Newspaper clipping, Shively, New York Sun. 219 - 41.
6. October 27, 1931.
Mark Sullivan states:

"If the American bankers had felt perfectly free to speak their minds to the French, they probably would have spoken somewhat as follows.....'if you wish to leave your deposits with us, we should like to be assured they will not be withdrawn suddenly without notice.'

"Something like this has actually been effected as an incident of the visit of M. Laval and his financial advisers, and the French deposits in American banks are now attended by terms fixing definite future dates, before which they can not be withdrawn."
219 - 77.
7. December 18, 1931.
Governor Harrison writes Governor Meyer that there is no basis, in fact, for any statement that we asked the Bank of France not to withdraw its deposits from the American money market, or, indeed, that they had "agreed" not to do so.

Nor is there any foundation to statements which have been

7. December 18, 1931 (Cont'd.)

made from time to time that in consideration of such an "undertaking" the Federal Reserve Bank of New York had agreed to maintain a firm money policy by increasing its discount rate to 4%, or by any other action.

.....I have reviewed these matters in some detail only because of the continued and repeated reports of an agreement in the nature of a "bargain" whereby the Federal Reserve Bank of New York surrendered its freedom of action regarding credit or discount rate policies in exchange for a promise from the Bank of France that it would not withdraw its funds from our market. There was not any such agreement, or any such bargain...

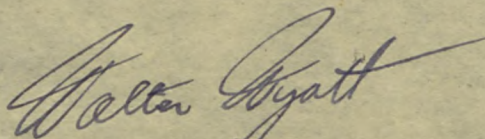
In fact, there has never been a time in any of my conversations with any central bank when there was any request or even any suggestion that they or we should in any way make a commitment as to any future policy that would in any way destroy or limit our complete freedom of action in our own self-interest.

Office Correspondence

FEDERAL RESERVE
BOARDDate March 9, 1932To Mr. Hamlin,Subject: Digest of Steagall Bill.From Mr. Wyatt, General Counsel.

2-8495

There is respectfully submitted herewith for your information, a digest of the Steagall Bill (H.R. 10241), which was prepared by Mr. Vest last night.



Walter Wyatt,
General Counsel.

Digest attached

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SUMMARY OF THE PROVISIONS OF H.R. 10241.

The provisions of this bill divide themselves conveniently into three portions: (a) amendments to the National Banking Laws; (b) amendments to the Federal Reserve Act; and (c) provisions establishing a Federal Guaranty Fund for depositors in member banks of the Federal Reserve System.

AMENDMENTS TO NATIONAL BANKING LAWS.

The amendments to the National Banking Laws, which are contained in Section 1, 2, 3 and 4 of the bill, refer in all cases only to national banks which may be organized hereafter.

These amendments contain three important changes in the law:

(1) The authority for the organization of a national bank with a minimum capital of \$25,000 in places of not exceeding 3,000 inhabitants is eliminated from the law; (2) no national bank may be organized unless it has a surplus of not less than 10% of its capital stock, and (3) provisions for the double liability of shareholders of national banks are eliminated, except as to banks having branches.

Section 1 of the bill eliminates from Section 5138 of the Revised Statutes the provision that national banks may be organized in places of not exceeding 3,000 inhabitants with a minimum capital stock of \$25,000.

Section 2 of the bill amends Section 5138 of the Revised Statutes so as to provide that no national bank shall be organized except with an initial surplus equal to 10% of its capital stock,

and provides a number of corresponding amendments to other provisions of the national banking laws in order to make them conform to this requirement. Thus, for this purpose:

Section 5168 (erroneously referred to as Section 5618) of the Revised Statutes, which requires the Comptroller of the Currency to examine into the condition of a national bank, and especially whether 50% of its capital stock has been paid in, in order to determine whether the bank is lawfully entitled to commence business, is amended to require the Comptroller to ascertain also whether 50% of the required initial surplus has been paid in.

The Act of November 7, 1918, as amended, providing for the consolidation of national banks, and for the consolidation of a State bank with a national bank, is amended to require that the consolidated institution in each such case shall have an initial surplus, as well as a capital stock, in the amount required for the organization of a national bank in the place in which it is located.

Section 5154 of the Revised Statutes, providing for the conversion of a State bank into a national bank, is amended to require that the converted institution have an initial surplus

not less than that required for the organization of a national bank in the place in which it is located.

Section 5140 of the Revised Statutes, requiring at least 50% of the capital stock of a national bank to be paid in before it is authorized to commence business and the remainder to be paid in in 10% monthly installments is amended to make similar requirements with regard to the required initial surplus.

Section 5141 of the Revised Statutes, which authorizes the sale of the stock of any shareholder who fails to pay any installment on his stock as required by law, is amended so as to give the same authority in the case of a failure to pay any installment of the initial surplus.

Section 5205 of the Revised Statutes, which provides for assessments upon stockholders of a national bank in case its capital stock is not paid up or in case of an impairment therein and for the appointment of a receiver when the deficiency is not made up within three months after notice, is amended to provide for such assessments where the initial surplus is not paid up and for the appointment of a receiver where the deficiency in initial surplus is not met within the three months' period. Apparently an impairment in initial surplus would not be grounds for such an assessment. The provision of Section 5205 authorizing the sale of the stock of a share-

holder who fails to pay such assessment against him would be omitted by this amendment, apparently by mistake.

Section 5143 of the Revised Statutes, which authorizes reductions in capital stock of national banks, is amended so as to include surplus in its provisions. While not clear, apparently all the present requirements for a reduction of capital, including two-thirds' vote of shareholders and approval of the Federal Reserve Board and of the Comptroller of the Currency, would be applicable as to every reduction in surplus.

Section 3 of the bill amends Section 5151 of the Revised Statutes and Section 23 of the Federal Reserve Act so as to eliminate the provision for the double liability of shareholders as to national banks hereafter organized, except as to any bank which operates or establishes a branch.

Section 4 of the bill provides that the provisions of Sections 1, 2 and 3 shall apply only to national banks organized after the date of the enactment of this Act.

AMENDMENTS TO THE FEDERAL RESERVE ACT.

Sections 5, 6 and 7 of the bill contain amendments to the Federal Reserve Act with regard to the distribution of earnings of Federal reserve banks, the charges which may be made by member banks for the collection or payment of checks and drafts, and the giving of immediate credit by Federal reserve banks for items received for collection.

Section 5 would amend the first paragraph of Section 7 of the Federal Reserve Act so as to provide that the net earnings of each Federal reserve bank shall be distributed as follows: After the payment to member banks of the 6% dividend now provided for and the payment of 10% of the net earnings to surplus, one-half of the remainder of the net earnings shall be paid to the Federal Guaranty Fund for depositors of member banks, (provided for in later sections of this bill) and the remaining one-half shall be paid to the member banks in proportion to the amount of their capital stock. The payment of the franchise tax by Federal reserve banks to the United States would thus be eliminated. The second paragraph of Section 7, with regard to the manner in which funds paid to the United States either as a franchise tax or upon dissolution of the Federal reserve bank are to be used, is amended to make the necessary corresponding changes.

Section 6 would amend the first paragraph of Section 13 of the Federal Reserve Act with regard to the charges which may be made by banks for collection or payment of checks and drafts so as to eliminate the clause "but no such charges shall be made against the Federal reserve banks" and the provision for the determination and regulation of such charges by the Federal Reserve Board; thus authorizing a bank to make a reasonable charge for collection or payment of checks and drafts, but not exceeding 10¢ per \$100 or fraction thereof on the total of checks and drafts received at any one time, whether such checks and drafts are presented by or through a Federal reserve bank or otherwise.

Section 7 would also amend Section 13 of the Federal Reserve Act by adding at the end of the first paragraph a new paragraph requiring a Federal reserve bank upon application of "a sending bank" to give immediate credit for checks and drafts received from such bank for collection and authorizing the Federal reserve bank to charge interest on the amount of the credit at the current rediscount rate pending the collection of the item or, with the approval of the Federal Reserve Board, to establish a time schedule for this purpose.

PROVISIONS FOR GUARANTY FUND FOR DEPOSITORS OF MEMBER BANKS.

The remaining sections of the bill, designated Sections 201 to 209, and comprising what is known as Title II of the bill, provide for the establishment of a Federal Bank Liquidating Board and for the guaranty of the deposits of member banks.

Section 201 of the bill establishes a Federal Bank Liquidating Board consisting of the Secretary of the Treasury, the Comptroller of the Currency, and three citizens of the United States appointed by the President by and with the advice and consent of the Senate. The appointive members, not more than one of whom shall be of the same political party as the President, are to hold office for four years and each is to receive a salary of \$10,000 per annum. The appointive members are ineligible during the time they are in office, and for one year thereafter, to hold office or employment in any member bank or in or on the Federal Reserve Board. The Liquidating Board shall elect its own chairman and other officers and may employ and fix the compensation of its officers and employees, but the compensation is not to exceed \$10,000 per annum in any case.

Section 202 establishes a Federal guaranty fund for depositors in member banks of the Federal reserve system. This fund is to be created by payments from three sources: (a) The entire amount heretofore paid to the United States as a franchise tax by the Federal reserve banks shall be paid, presumably by the United States,

to the guaranty fund; (b) The Federal reserve banks are to pay to the fund \$150,000,000, the amount required of each to be determined pro rata according to the amount of its surplus on December 31, 1931; and (c) The board shall require the member banks to pay to the fund (1) such an amount as it may fix, not exceeding \$130,000,000, the amount required of each member bank to be determined pro rata according to its average deposits, other than time deposits, during the preceding calendar year, and (2) such an amount as the board may fix not to exceed \$70,000,000, pro rated among such banks according to their average time deposits during the preceding calendar year. At any time after one year subsequent to the payment of the above amounts, the board may, if in its judgment the amount of the fund is inadequate, require the member banks to pay annually to the fund not more than \$100,000,000 pro rated among them according to their net earnings for the preceding calendar year. All sums payable either by a Federal reserve bank or by a member bank are subject to the call of the Liquidating Board; and, if in its judgment at any time the amount in the fund is in excess of the amount adequate for the purposes of the law, the board shall make a refund to each Federal reserve bank and to each national bank, the amount of the refund to be pro rated according to the amount of their contributions. Apparently State member banks would not share in any return of contributions.

Sums in the guaranty fund may be invested by the board in interest bearing obligations of the United States or deposited in member banks without interest.

Section 203 provides that whenever a national bank is insolvent, the Comptroller of the Currency shall so certify to the Liquidating Board, which shall proceed to wind up the bank in accordance with the law. Within thirty days after the receipt of the certificate of insolvency by the board, a committee consisting of one person appointed by the board, one appointed by the owners of a majority of the stock of the bank and one appointed by the depositors of more than 50 per cent of the outstanding deposits of the bank shall estimate the value of the assets and the amount of the liabilities of the bank and make a statement of the amount of the outstanding deposit of each depositor.

Section 204 provides that, on the basis of this estimate, as modified by the board, and not less than sixty days after the certification of insolvency, the board shall pay to each depositor whose outstanding deposit is not more than \$1,000 not less than fifty per cent thereof, and to each other depositor not less than twenty-five per cent of his outstanding deposit, or \$500, whichever is greater. Within six months after such payment the board is to pay each depositor of the former class the remaining amount due him (and it is apparently the intention to provide that other depositors shall,

within this six months' period, be paid an additional twenty-five per cent of their deposits, but no such provision is contained in the bill.) Within the next six months period an additional twenty-five per cent shall be paid to all depositors not yet paid and within six months thereafter full payment shall be made to all depositors.

Section 205 provides that the board, or a liquidating agent duly authorized by the board, may borrow money on the security of the assets of any insolvent national bank for the purpose of paying its depositors and creditors.

Section 206 provides that in case of insolvency of a State member bank, the board shall request its receiver or liquidating agent to submit a report and estimate such as that required of the Committee in the case of a national bank; and the board upon approval of such report and estimate shall pay the receiver or liquidating agent in trust for the depositors the same amounts, and at the same times, as in the case of national banks.

Section 207 makes it mandatory upon the Federal Reserve Board, after hearing, to forfeit the membership of any member bank failing to comply with the requirements of the bill with respect to the Guaranty Fund or any regulation of the Liquidating Board; and a national bank failing to comply with such provisions of the bill shall, in addition, forfeit all rights and franchises granted to it by the law (apparently without any court proceeding, but upon the basis of the hearing conducted by the Federal Reserve Board.)

Section 208 authorizes the Liquidating Board to make regulations necessary to carry out the provisions with respect to the Guaranty Fund.

Section 209 authorizes appropriations of such sums as may be necessary to carry out the provisions of this act.

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Office Correspondence

FEDERAL RESERVE
BOARDDate April 11, 1932 See BuTo Mr. Hamlin

Subject: _____

From Mr. Goldenweiser *Goldenweiser*

2-8495

I have read with interest your reply to Governor Harrison's memorandum on the Glass bill, and shall be very glad to have a copy of it when you have it mimeographed. Your comments are a forceful statement of the position which you have maintained throughout, and I have no suggestions to make.

I think perhaps the sentence on page seven, where you say that 1929 "represented a successful raid of the speculative public upon the deposits of the banks," it would be more accurate to say "upon the banks of the country." Speculative loans were not made out of existing deposits, but on the contrary themselves created bank deposits.

I may add that I am not optimistic enough to agree with the last five words of your statement.

Since writing the above I have seen Governor Harrison's statement, and I feel certain that you are mistaken in assuming that his suggestion about directors applies to directors of Federal reserve banks. I have had many talks with him and with Burgess about this, and what they have in mind is that many member banks have so large a directorate that there is no adequate concentration of responsibility, and they were discussing a proposal for requiring national banks to have a

Mr. Hamlin, - #2

directorates not to exceed some given figure.

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Office Correspondence

FEDERAL RESERVE
BOARDDate April 21, 1932To Mr. HamlinSubject: Changes in bank loans and amountFrom Mr. Smeadof domestic capital issues, 1915 - 1931

GPO 2-8495

JH

In accordance with your telephone request there is attached hereto a statement showing the growth in total loans (excluding investments) of member banks and of all banks in the United States, by years, from 1919 to 1931, and the amount of new domestic corporate issues of stocks and bonds during the same period.

As figures of domestic corporate issues, exclusive of refundings, are not available prior to 1919, I am handing you a separate table comparing the growth in bank loans for the period 1915 to 1918, with total domestic and foreign corporate issues (in the United States), which include refundings. The foreign corporate issues included in this table represent for the most part, we understand, Canadian issues.

C-75

CHANGES IN BANK LOANS, AND AMOUNT OF DOMESTIC CAPITAL ISSUES, 1918 - 1931

(In millions of dollars)

Year	Bank loans						Domestic Capital issues during the calendar year (Corporate issues exclusive of refundings)		
	Amount at end of June or December		Change for year			Total	Bonds and notes	Stocks	
		Member banks	All banks	Year ending	Member banks	All banks			
1918	June	13,233	22,392	--	--	--			
1919	"	15,414	24,710	June	+2,181	+2,318	2,246	810	1,436
1920	"	19,533	30,824	"	+4,119	+6,114	2,563	1,561	1,002
1921	"	18,119	28,970	"	-1,414	-1,854	1,701	1,435	265
1922	"	17,165	27,732	"	-954	-1,238	2,212	1,642	570
1923	June	18,750	30,378	"	+1,585	+2,646	2,635	1,976	659
	December	18,842	30,778						
1924	December	19,933	32,440	December	+1,091	+1,662	3,029	2,200	829
1925	"	21,996	35,640	"	+2,063	+3,200	3,605	2,452	1,153
1926	"	22,652	36,759	"	+656	+1,119	3,754	2,667	1,087
1927	"	23,886	38,407	"	+1,234	+1,648	4,657	3,183	1,474
1928	"	25,155	40,763	"	+1,269	+2,356	5,346	2,385	2,961
1929	"	26,150	41,898	"	+995	+1,135	8,002	2,078	5,924
1930	"	23,870	38,135	"	-2,280	-3,763	4,483	2,980	1,503
1931	"	19,261	31,616	"	-4,609	-6,519	1,550	1,239	311

FEDERAL RESERVE BOARD
 DIVISION OF BANK OPERATIONS
 APRIL 19, 1932

1932

CHANGES IN BANK LOANS, AND AMOUNT OF DOMESTIC AND FOREIGN CAPITAL ISSUES, 1915 - 1918

(In millions of dollars. Source of Capital Issues data: Wall Street Journal, January 26, 1932)

Year	Bank loans				Domestic and Foreign Capital issues, including refundings, during the calendar year		
	Amount at end of June		Change for year ending June		Total	Bonds and notes	Stocks
	Member banks	All banks	Member banks*	All banks			
1914	6,443	15,248					
1915	6,720	15,643	+ 277	+ 395	1,580	1,189	391
1916	7,964	17,961	+ 1,244	+ 2,318	1,864	1,230	634
1917	9,370	20,510	+ 1,406	+ 2,549	1,576	1,173	403
1918	13,233	22,392	+ 3,863	+ 1,882	1,216	1,020	196

*Part of increases shown for member banks is due to accessions
to membership.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 21, 1932

Sen PM

April 30, 1932

Mr. Hamlin

Changes in member bank security loans in 1920-1921, when F. R. banks had a 7 per cent discount rate

Mr. Smead

In response to your telephone request of yesterday that we prepare for Senator Glass data to show the changes that took place in member bank security loans in 1920-1921, when some of the Federal reserve banks had a 7 per cent discount rate, we are handing you herewith three tables covering the period December 1919 to December 1921, as follows:

1. Loans and investments of all weekly reporting member banks in leading cities
2. Loans and investments of weekly reporting member banks in New York City
3. Brokers' loans placed by New York City daily reporting banks

There is also attached hereto a copy of the pamphlet "Discount rates of the Federal Reserve Banks, 1914-1921," showing all changes in Federal reserve bank discount rates during that period. It will be noted from page 6 of the pamphlet that a 7 per cent rate on commercial, agricultural and livestock paper was established by the Federal Reserve Bank of New York on June 1, 1920, and that this rate was reduced to 6-1/2 per cent on May 5, 1921, and to 6 per cent on June 16, 1921. The rate on paper secured by U. S. Government obligations did not go above 6 per cent.

Changes in discount rates of the other Federal reserve banks are shown on other pages of the pamphlet.

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JEH/fac

LOANS AND INVESTMENTS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES,
DECEMBER 1919 TO DEC, 1921

(Monthly averages of weekly figures; in millions of dollars)

	Total loans and investments	Loans on secur- ities	"All other" loans	U.S. Govt. secur- ities	Other secur- ities
1919- December	16,387	4,703	7,710	1,993	1,981
1920 - January	16,682	4,737	8,006	1,963	1,976
February	16,652	4,504	8,384	1,798	1,965
March	16,853	4,454	8,788	1,654	1,957
April	16,983	4,390	8,954	1,693	1,945
May	16,992	4,303	9,050	1,711	1,928
June	16,971	4,249	9,177	1,647	1,899
July	16,921	4,181	9,326	1,535	1,880
August	16,907	4,087	9,431	1,510	1,880
September	17,057	4,111	9,580	1,485	1,881
October	17,192	4,155	9,741	1,416	1,880
November	16,868	4,072	9,507	1,407	1,883
December	16,737	4,111	9,317	1,418	1,891
1921 - January	16,447	4,036	9,131	1,343	1,937
February	16,176	3,961	8,967	1,322	1,925
March	16,066	3,921	8,864	1,342	1,940
April	15,778	3,849	8,657	1,328	1,945
May	15,511	3,842	8,430	1,294	1,944
June	15,364	3,805	8,232	1,362	1,966
July	15,065	3,740	8,113	1,274	1,938
August	14,921	3,670	8,018	1,319	1,913
September	14,902	3,667	8,005	1,328	1,902
October	14,942	3,717	7,947	1,324	1,954
November	14,837	3,721	7,773	1,399	1,944
December	14,842	3,765	7,655	1,462	1,960

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 29, 1932

ASSETS AND INVESTMENTS OF WEEKLY REPORTING MEMBER BANKS IN NEW YORK CITY,
DECEMBER 1919 TO DECEMBER 1921

(Monthly averages of weekly figures; in millions of dollars)

	Total loans and investments	Loans on secur- ities	"All other" loans	U. S. Govt. secur- ities	Other secur- ities
1919 - December	5,689	1,930	2,527	677	555
1920 - January	5,807	1,964	2,619	658	566
February	5,614	1,764	2,708	596	546
March	5,599	1,722	2,798	533	545
April	5,657	1,705	2,814	588	551
May	5,646	1,668	2,838	591	550
June	5,672	1,652	2,901	566	552
July	5,674	1,605	2,969	548	552
August	5,630	1,534	3,023	526	548
September	5,693	1,554	3,078	507	554
October	5,759	1,613	3,115	470	561
November	5,564	1,522	3,033	469	541
December	5,552	1,567	2,972	474	540
1921 - January	5,446	1,521	2,931	464	530
February	5,319	1,463	2,890	448	518
March	5,235	1,425	2,828	459	523
April	5,088	1,391	2,711	454	532
May	4,950	1,393	2,596	434	527
June	4,888	1,367	2,495	493	533
July	4,742	1,323	2,451	452	516
August	4,689	1,296	2,440	447	506
September	4,676	1,306	2,419	450	501
October	4,722	1,369	2,373	461	520
November	4,701	1,380	2,292	517	512
December	4,749	1,418	2,243	571	517

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 29, 1932

BROKERS' LOANS PLACED BY NEW YORK CITY DAILY REPORTING BANKS,
DECEMBER 1919 TO DECEMBER 1921

(Monthly averages of weekly figures; in millions of dollars)

	Total	For own account	For correspondents
1919 - December	1,305	633	673
1920 - January	1,324	656	668
February	1,144	482	662
March	1,080	449	631
April	1,099	476	622
May	1,015	429	585
June	943	425	518
July	928	405	522
August	873	347	525
September	868	341	528
October	939	399	540
November	906	344	561
December	835	358	477
1921 - January	785	345	441
February	778	326	452
March	778	320	458
April	752	316	436
May	773	317	456
June	773	338	437
July	734	338	396
August	719	348	371
September	723	350	374
October	772	404	368
November	831	434	398
December	879	483	396

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
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