

The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 230, FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 6, 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 230 of Mr. Hamlin's scrap book and placed in the Board's files:

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Confidential letter to Governor Calkins from Governor Harrison re open market operations.

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Letter to Senator Glass re draft of amendment to F.R. Act.

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Confidential - Preliminary Memo for the Open Market Policy Conference July 14, 1932.

Pages 79 & 83

(X-7199) Tentative Draft - Discounts for Individuals and Corporations.

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Earnings and Expenses of Federal Reserve Banks, June 1932.

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Analysis of New Paragraph of Section 13 of the F.R. Act as provided for by Section 210 of H.R. 9642 as amended and passed by the Senate on July 11, 1932.

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Letter to Senator Glass re Section 13 of F.R. Act.

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Memo to Board re operating efficiency of F.R. Banks.

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Report of Carl P. Dennett, Chairman of the Banking and Industrial Committee of the First Federal Reserve District.

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Memo to Board from Mr. Wyatt re Comments of Chairman and Governors of F.R. Banks on July 16 Draft of Circular re Discounts for Individuals, Partnerships and Corporations.

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Memo to Mr. Hamlin from Mr. Wyatt re Glass Amendment to so-called relief bill.

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CONFIDENTIAL

July 5, 1932.

Dear Governor Calkins:

In view of the changes in the System position resulting from gold losses, recent bank disturbances, and mid-year events, it seems desirable to review recent open market operations in their relation to the present position of the System and the general banking situation.

Since February 24 the government security holdings of the System have been increased by \$1,060,000,000, including some purchases by the Federal Reserve Bank of Chicago for its own account during last week. The disposition of the funds put into the market through these purchases may be tabulated as follows:

Disposition of Funds Made Available by Security Purchases

(In millions of dollars)

| | |
|---|------------|
| Net loss of gold through exports and earmarking | 430 |
| Repayment of discounts of Federal reserve banks | 365 |
| Reduction in Federal reserve bill holdings | 89 |
| Increase in money in circulation | 57 |
| Increase in member bank reserve balances | <u>156</u> |
| Total | 1,077 |

The difference between these figures and the figures for government purchases is made up by a number of miscellaneous items.

This table indicates that the funds made available by security purchases were largely absorbed by heavy losses of gold and by a reduction in Federal reserve discounts and bills. Only a relatively small remaining amount has been made available to form excess member bank reserves which might support an increase in member bank credit.

During this period the excess gold reserves of the System have been reduced from \$1,392,000,000 to \$942,000,000, that is a decline of \$450,000,000,

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and the combined reserve ratio of the System has declined from 68 per cent to 57 per cent. It is interesting to observe, however, that only a very small part of this change in the System's gold position and the reserve ratio is attributable to purchases of government securities. Most of it has been due to the repatriation of foreign central bank dollar funds, which very probably would have occurred regardless of the policy of the System. The country's gold stock has declined as shown in the above table \$430,000,000, or only \$20,000,000 less than the decline in the excess gold reserve of the Federal reserve banks. Had there been no increase in the System government holdings this gold loss would necessarily have been accompanied by considerable increase in Federal reserve bank discounts over and above the discounts held at the time security purchases were commenced. In other words member bank borrowings in the Reserve banks instead of declining from \$835,000,000 to \$470,000,000, would most surely have been increased to well over \$1,000,000,000, in addition to some increase in acceptances, and the drastic credit deflation in process in February inevitably would have been accelerated as a consequence.

Thus we see that the open market program was not only effective in preventing the increase in discounts which would have followed such large gold exports, but on the contrary was responsible for a substantial reduction of discounts in spite of such gold losses. Most of the increase in reserve funds resulting from security purchases has been required to meet demands for reserve credit which had to be met in some form. Whether that reserve credit was provided by purchases of government securities, by rediscounts, or by bill purchases, the effect upon the gold position and the reserve ratio would be precisely the same. The reserve ratio is now less than 2% under what it would have been had no securities been bought, and that 2% difference is accounted for by the fact that our open market operations have increased reserve credit about \$125,000,000 in excess of

the actual demand, and member banks hold approximately this amount of excess reserve deposits. The required reserve against these excess deposits accounts for the difference in the reserve ratio. These excess reserves are, of course, available to meet any demand for currency or gold which may arise or to support an expansion of member bank credit about ten times the amount of the excess.

The following table gives these figures in detail.

(In Millions of Dollars)

| <u>F. R. Credit:</u> | <u>Feb. 25</u> | <u>June 29</u> | <u>Change</u> |
|-----------------------|----------------|----------------|---------------|
| U. S. Securities held | 741 | 1,801 | + 1,060 |
| Discounts | 835 | 470 | - 365 |
| Bills bought | 133 | 64 | - 69 |
| Other F. R. credit | <u>25</u> | <u>11</u> | <u>- 14</u> |
| Total F. R. credit | 1,734 | 2,346 | + 612 |

Principal Demands for F. R. Credit:

| | |
|---|------------|
| Reduction in U. S. gold stock | 430 |
| Net increase in currency circulation | 57 |
| Total increase in demand | <u>487</u> |
| Excess of increase in F. R. credit over increased demand | 125 |
| Increase in member bank and other deposits in F. R. banks | 134 |

Apart from the effect of open market operations on the technical position of the System it is important briefly to summarize some of the more general results of the System's purchases of securities:

- (1) The very large repatriation of foreign central bank funds has been accomplished without any strain on the position of member banks, and thus one important obstacle to a more normal credit position has been removed.
- (2) The pressure for liquidation of bank credit which usually results from the indebtedness of member banks has been materially lightened by a reduction in their total borrowings from more than \$800,000,000 to less than \$500,000,000.

- (3) The decline in member bank deposits has been checked, and the liquidation of bank credit which had been proceeding at an alarming rate has been substantially retarded.

The alternative to purchases of government securities would have been a large increase in member bank indebtedness which would have exerted still further pressure towards liquidation, the continuance of which at the rate it was proceeding in February might well have been disastrous.

With the gold outflow apparently checked except for the export of some \$20,000,000 during the next three weeks, about which we shall write you, the only factors which appear likely to influence the System's reserve position in the near future are changes in the currency demand, and changes in member bank reserve balances. If there should be a further increase in the currency demand the form in which the Federal reserve credit is supplied will make no difference in the effect on the System's reserve position.

Member bank reserves have recently fallen short of the 250 to 300 million of excess which it was proposed to maintain, as pointed out in the minutes of the last meeting of the executive committee. In the absence of a return flow of the currency that has recently gone out, it would require the purchase of about \$125,000,000 more Government securities to restore member bank reserves to that level. Even such an amount would reduce the reserve ratio of the System by only about $1\frac{1}{2}$ points, from a little over 57 per cent to slightly under 56 per cent. If excess member bank reserves should now be restored to that basis it seems likely that they will for the first time have an opportunity to exert their full force unless or to the extent that gold exports or currency hoarding should revive. In any event there is now more reason to expect that when excess reserves are restored they can be maintained until bank credit begins to expand -

7/5/32.

the real objective of the policy which the System inaugurated in the spring.

While the recent experience shows that the purchases of government securities do not adversely influence the position of the reserve banks as a whole, they may affect the position of individual reserve banks, and the present situation in which a number of the Reserve banks have percentages of about 50 per cent whereas others have considerably higher percentages, clearly requires reconsideration of the allotment of securities as a necessary accompaniment of a further program of security purchases. We have already received a number of comments on the letter and tables mailed to all the Reserve banks on June 24, and shall write you further when more are received.

Very truly yours,

George L. Harrison,
Governor.

Mr. John U. Calkins,
Governor, Federal Reserve Bank of San Francisco,
San Francisco, Cal.

Enc.

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C O P Y

July 9, 1932.

Personal and Confidential.

Dear Senator Glass:

I am sending you this confidential note enclosing a hastily prepared draft of amendment to the Federal Reserve Act, giving the Federal reserve banks, in emergencies, the power to loan directly on eligible paper, exactly as they can now purchase eligible trade acceptances. Of course it will be claimed that the banks will be deluged, but I do not believe this at all. I firmly believe, but cannot prove, that there are many merchants in the United States today who are unable to obtain credit, although they can give satisfactory collateral. I know that there are large areas where there are no banks left. I therefore, personally, would favor giving this power in emergencies to Federal reserve banks.

It is clear that practically all the central banks of Europe have this power today, and I do not believe it will be disastrous to extend this to the Federal reserve banks under the control of the Federal Reserve Board. I enclose a list of central banks which have this power to deal direct with individuals.

Sincerely yours,

Hon. Carter Glass,
United States Senate,
Washington, D. C.

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CENTRAL BANKS WHICH EITHER HAVE EXPRESS AUTHORITY TO MAKE LOANS TO
INDIVIDUALS OR ELSE ARE NOT SPECIFICALLY PROHIBITED FROM DOING SO.

Kisch and Elkin (1930)

I am sending you this confidential note enclosing a hastily

| | |
|--------------------------------|----------|
| Commonwealth Bank of Australia | Page 166 |
| National Bank of Austria | " 173-4 |
| " " " Belgium | " 181-2 |
| " " " Bulgaria | " 189-90 |
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| " " Finland | " 261 |
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| National Bank of Hungary | " 292-3 |
| Banca d'Italia | " 301-2 |
| Bank of Japan | " 310-1 |
| Bank of Latvia | " 317-8 |
| Bank of Lithuania | " 324-5 |
| Netherlands Bank | " 330-1 |
| Norges Bank | " 336-7 |

Sincerely yours,

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Bank of Poland

Page 352-3

National Bank of Rumania

" 362-3

Bank of Spain

" 380-1

Swedish Riksbank

" 394-5

Swiss National Bank

" 393-4

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 13 of the Federal Reserve Act, as amended, is hereby further amended by adding at the end of the second paragraph thereof a new paragraph reading as follows:

"In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said Board may determine, at rates established in accordance with the provisions of Section 14, subdivision (d) of this Act, to discount for any individual or corporation, notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act, when such notes, drafts and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank; provided, that before discounting any such note, draft or bill for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions and regulations as the Federal Reserve Board may prescribe. No note, draft or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes."

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PRELIMINARY MEMORANDUM FOR THE OPEN MARKET POLICY CONFERENCE

JULY 14, 1932.

The results of purchases of government securities by the System since March were reviewed in a letter of July 5 from the chairman of the Conference to the governors of all Reserve banks. This letter indicated that the funds made available by security purchases had been largely used to enable banks to meet gold losses and to repay indebtedness at the Reserve banks, and that only a relatively small amount remained to provide excess reserves. In the absence of purchases of government securities there would have been a considerable increase in borrowings at the Reserve banks and a continuation of the drastic credit deflation which had been going on.

As to the effect on the Reserve System the purchases of government securities were a very small influence upon the reserve position of the Federal reserve banks, the declines in reserve ratios over this period being due almost altogether to gold losses rather than to purchases of governments.

The general results of the System's purchases of securities were summarized as follows:

- "(1) The very large repatriation of foreign central bank funds has been accomplished without any strain on the position of member banks, and thus one important obstacle to a more normal credit position has been removed.
- "(2) The pressure for liquidation of bank credit which usually results from the indebtedness of member banks has been materially lightened by a reduction in their total borrowings from more than \$800,000,000 to less than \$500,000,000.
- "(3) The decline in member bank deposits has been checked, and the liquidation of bank credit which had been proceeding at an alarming rate has been substantially retarded."

All of these results are real accomplishments in themselves and have probably avoided very serious consequences of continued or increased credit liquidation. Nevertheless the ultimate purpose of bringing about an increase in the volume of bank credit, which might in its turn influence business activity has not yet been achieved for the results so far accomplished are not such as would be expected to exercise a very direct or affirmative influence upon business activity. It, therefore, seems desirable at this time to review the general business and industrial situation as a basis for determining the extent to which further purchases of government securities would be likely to prove effective.

Production, Trade, and Employment

A further decline in the volume of production and trade and in numbers of workers employed is shown by the available figures for May and June. Indexes commonly used to measure fluctuations in business now show greater declines than this country has ever before experienced. The depressions of the 70s and the 90s brought with them nothing approaching the cessation in activity which occurred in recent months. The following table shows the percentage decline in production in this recent period compared with the decline in other important depressions:

Declines in Industrial Activity *

(Computed normal = 100)

| <u>High Point</u> | | <u>Low Point</u> | | <u>Decline</u> |
|-------------------|--------------------|------------------|--------------------|-----------------|
| <u>Date</u> | <u>Actual Data</u> | <u>Date</u> | <u>Actual Data</u> | <u>Per Cent</u> |
| Jan. 1873 | 114.6 | Feb. 1878 | 87.3 | 24 |
| Feb. 1892 | 113.9 | Jan. 1894 | 80.1 | 30 |
| Jan. 1906 | 112.6 | May 1908 | 81.9 | 27 |
| Jan. 1920 | 111.2 | Apr. 1921 | 73.0 | 34 |
| Apr. 1923 | 115.2 | July 1924 | 87.3 | 24 |
| June 1929 | 114.7 | June 1932 (est.) | 50.6 | 56 |

* From index published by Cleveland Trust Company.

The total number of wholly unemployed workers in the United States is now estimated at about 10,000,000, an increase of about 3,000,000 to 4,000,000 from a year ago. This is more severe unemployment than we have ever before experienced in this country and constitutes a major social and economic problem for it carries with it the threat of social disturbance and radical legislation. To bring about reemployment before winter is the problem which faces the country.

Looked at from the point of view of business and finance the problem is almost equally pressing, for a continuation of the present restricted volume of business activity over an extended period of months would mean the bankruptcy of many business concerns

including many railroads, and the insolvency of many banks.

Favorable Factors

Fortunately, at this point a number of the principal obstacles to business and financial improvement have been removed. The practical completion of the removal of foreign short time balances from our money market has removed a threat to our gold position. Domestic gold hoarding has practically stopped. A tax bill has been passed by Congress which it is hoped will place the budget in approximate balance. The relief bill with added powers to the Reconstruction Finance Corporation will probably soon be passed. The reparations agreement has been signed at Lausanne. Definite settlement has been effected of a number of individual domestic situations which threatened to prove disturbing. The bonus bill and a number of other unsound legislative proposals have been defeated. Business has effected many readjustments in costs and has begun to evidence a more hopeful sentiment.

Already the course of financial events has begun to reflect these favorable developments. The bond market, and particularly the market for foreign bonds, has shown improvement as indicated in the following figures:

| | 1932 Low | July 11, 1932 |
|--|-------------|------------------|
| Standard Statistics corporation bond average | 57.45 | 60.19 |
| Baker-Kellogg foreign bond average | 54.22 | 59.58* |

* July 8 figure

Basic commodity prices, after a month of approximate stabilization, have begun to show improvement as indicated by the following figures for principal basic commodities.

| | <u>1932</u> | |
|---|-------------|----------------|
| | <u>Low</u> | <u>July 11</u> |
| Wheat, cash, at Minneapolis, per pound | \$0.5288 | \$0.5400 |
| Corn, cash, at Chicago, per pound | 0.2938 | 0.3175 |
| Hogs, average, per hundredweight | 3.19 | 5.33 |
| Steers, average, per hundredweight | 6.29 | 8.38 |
| Hides, per pound | 0.0369 | 0.0425 |
| Sugar, raw, per pound | 0.0257 | 0.0305 |
| Cotton, middling, New York, per pound | 0.0500 | 0.0585 |
| Wool, per pound | 0.3072 | 0.3072 |
| Silk, per pound | 1.13 | 1.18 |
| Rubber, smoked ribbed sheets, per pound | 0.0256 | 0.0256 |
| Copper, electrolytic, per pound | 0.0525 | 0.0531 |
| Tin, per pound | 0.1844 | 0.2075 |
| Pig iron, per ton | 13.76 | 13.76 |
| Finished steel, per pound | 0.02037 | 0.02087 |
| Scrap steel, Pittsburg, per ton | 8.25 | 8.25 |
| Petroleum, crude, per barrel | 0.873 | 1.017 |

The establishment of banking and industrial committees in the different Federal reserve districts should also be listed as among the favorable factors, for they provide machinery available to carry out in the several districts any plans agreed upon for industrial and financial rehabilitation.

Capital Goods Industries Most Depressed

In considering the effectiveness of various means which may be employed for stimulating employment or industrial activity, consideration may well be given to the variation between different industries as to their extent of activity and employment of workers. These figures which are shown in full in the tables at the end of this memorandum, show that the greatest cessation of activity has been in the basic industries producing what may be termed capital goods. This may be illustrated by the following index figures for activity in different industries.

| <u>Industry</u> | <u>Percentage of Computed Normal</u> |
|-----------------|--|
| Pig iron | 20 |
| Steel | 23 |
| Bituminous coal | 48 |
| Cement | 44 |
| Lumber | 33 |

As contrasted with these figures production of the following consumption goods may be listed:

| <u>Industry</u> | <u>Percentage of Computed Normal</u> |
|-----------------|--|
| Boots and shoes | 87 |
| Hosiery | 67 |
| Live stock | 83 |
| Wheat flour | 78 |
| Sugar | 56 |
| Tobacco | 79 |

The whole group of industries classified under producers goods in the index compiled by the Federal Reserve Bank of New York are operating at 49 per cent of computed normal, whereas the industries classified under consumers goods are operating at a rate 77 per cent of computed normal. Unemployment and wage figures support this same general conclusion, that the greatest cessation in activity and the greatest amount of unemployment has taken place in the capital goods industries; that is, those industries which produce for the use of other industries primarily, and the activities of which are largely financed through the capital market.

The extreme depression in these industries appears to reflect, first, some over-production of capital goods in the years just before the depression, and second the disorganization of the bond market to a point where new financing has become practically impossible, and capital is no longer available for business even at prohibitive prices. What is most required to revive these basic industries, is cheap long-term capital.

The surveys thus far conducted by banking and industrial committees in a number of districts appear to indicate that there are a considerable number of sound enterprises which can go forward as soon as capital is available upon moderate terms. There are three principal fields in which these enterprises now appear:

(1) Building Construction. While there has been over-production of office buildings and high class apartments there is a considerable demand for cheap apartments and moderate-priced private dwellings, and for modernization of old buildings.

(2) Modernization of existing industrial facilities to keep pace with recent inventions and improvements.

(3) Public and semi-public projects.

In addition to these three major forms of capital goods there appear to be many other small enterprises in which a more adequate supply of capital and of bank credit would find profitable employment if it were available upon moderate terms. In the consumption industries also stocks are low and trade is retarded by shortages of capital and credit.

Function of the Banks

In the furnishing of both credit and capital to business the banks occupy the key position. For the past year and a half the banks have not only decreased greatly their extensions of credit to business but also have withdrawn large amounts of funds from the capital market as illustrated in the following figures for weekly reporting banks:

| | (In millions of dollars) | |
|-----------------------------|--------------------------|-----------------|
| | Dec. 31, 1930 | July 6, 1932 |
| Loans: | | |
| On securities | 7,814 | 4,632 |
| All other loans | 8,449 | 6,484 |
| Investments: | | |
| U. S. securities | 2,992 | 4,210 |
| Other securities | 3,701 | 3,206 |
| Total loans and investments | 22,956 | 18,532 |

By their decrease in investments in securities other than Governments and their decrease in loans upon securities these banks have thus withdrawn in this period nearly four billion dollars from the capital market, whereas ordinarily the banks of the United States pour into this market about a billion dollars a year in these two forms.

In recent weeks since the Reserve System began its policy of vigorous purchases of government securities there has been some change in this tendency. Bank credit as a whole stopped its rapid decline and tended to level out and the contribution of the banks to the capital market showed a similar tendency until the latter part of June when bank disturbances and mid-year and holiday demands used up most of the surplus reserves and caused some resumption in the decline in credit.

Any program for meeting the present emergency must depend upon two forces for increasing business activity and employment: first, the natural stimulation which will arise from a general improvement in the security market and in the business and financial situation generally, and second, the stimulation of activity through the agencies of the government. The problem has now become so acute and the time has become so short that it has now been generally agreed that artificial methods are necessary. The artificial methods used appear to depend upon the particular form of the relief bill which Congress may adopt. In any event such a bill is likely to require a considerable amount of additional government financing, the floating of which on the market during coming months is essential to the entire program. Along with this governmental program it is to be hoped that a natural recovery in the security markets and in prices and business itself may be accompanied by an increased use of the normal channels of financing. To achieve both of these purposes vigorous support by the banks of the country is essential, and an increase in bank credit.

CHANGES IN EMPLOYMENT AND PAYROLLS BETWEEN MAY 1929 AND MAY 1932

(1923-1925 average = 100)

| | <u>Employment</u> | | <u>Payrolls</u> | |
|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>1929</u> <u>May</u> | <u>1932</u> <u>May</u> | <u>1929</u> <u>May</u> | <u>1932</u> <u>May</u> |
| Iron and steel | 100.7 | 57.2 | 111.6 | 30.4 |
| Machinery | 119.1 | 54.4 | 131.9 | 35.9 |
| Textiles | 97.3 | 62.0 | 99.3 | 41.5 |
| Food products | 97.3 | 81.0 | 103.1 | 72.9 |
| Paper and printing | 102.8 | 83.8 | 114.3 | 77.0 |
| Lumber and products | 89.2 | 38.6 | 92.8 | 22.2 |
| Transportation equipment | 101.5 | 52.4 | 116.0 | 45.9 |
| Automobiles | 130.0 | 59.7 | 147.1 | 53.5 |
| Leather and products | 90.3 | 72.7 | 88.1 | 45.7 |
| Cement, clay, and glass | 93.1 | 47.0 | 91.8 | 30.2 |
| Nonferrous metals | 105.3 | 51.4 | 123.1 | 34.5 |
| Chemicals | 110.3 | 78.3 | 113.1 | 66.9 |
| Petroleum refining | 114.4 | 78.2 | 118.9 | 72.5 |
| Rubber products | 115.3 | 66.0 | 146.5 | 48.7 |
| Tobacco products | 90.3 | 67.3 | 86.1 | 48.4 |

INDEXES OF PRODUCTION

(Computed normal = 100)

| <u>Items</u> | <u>1929</u> <u>May</u> | <u>1932</u> <u>May</u> | <u>1932</u> <u>June</u> |
|-------------------------|---------------------------|---------------------------|----------------------------|
| Pig iron | 114 | 22 | 20 |
| Steel ingots | 121 | 24 | 23 |
| Lead | 112 | 43 | - |
| Zinc | 113 | 35 | 32 |
| Tin | <u>141</u> | <u>48</u> | <u>48</u> |
| METALS | 131 | 31 | - |
| Cotton consumption | 109 | 55 | - |
| Wool mill activity | 102 | 38 | - |
| Silk consumption | <u>101</u> | <u>60</u> | <u>-</u> |
| TEXTILES | 105 | 51 | - |
| Bituminous coal | 110 | 52 | 48p |
| Coke | 120 | 40 | - |
| Petroleum, crude | 112 | 72 | - |
| Cement | 115 | 44 | - |
| Lumber | 104 | 33 | - |
| Newsprint paper | 98 | 79 | - |
| Cotton receipts | 103 | 109 | - |
| Wheat receipts | 92 | 73 | - |
| OTHER PRODUCERS GOODS | <u>103</u> | <u>66</u> | <u>-</u> |
| * TOTAL PRODUCERS GOODS | <u>113</u> | <u>49</u> | <u>-</u> |
| Anthracite coal | 90 | 52 | 40p |
| Petroleum products | 101 | 67 | - |
| Boots and shoes | 111 | 87 | - |
| Finished cotton goods | 116 | 53 | - |
| Hosiery | 108 | 67 | - |
| Knit underwear | 115 | 84 | - |
| Livestock | 93 | 96 | 83 |
| Wheat flour | 108 | 78 | - |
| Sugar | 80 | 56 | - |
| Tobacco | 112 | 79 | - |
| Farm produce | <u>96</u> | <u>92</u> | <u>-</u> |
| TOTAL CONSUMERS GOODS | <u>103</u> | <u>77</u> | <u>-</u> |

p = preliminary

INDEXES OF BUSINESS ACTIVITY

(Computed normal = 100)

| <u>Items</u> | <u>1929</u> <u>May</u> | <u>1932</u> <u>May</u> | <u>1932</u> <u>June</u> |
|---|---------------------------|---------------------------|----------------------------|
| Carloadings, mdse. and misc. | 104 | 56 | 55 |
| Carloadings, other | 111 | 42 | 38 |
| Exports | 102 | 50p | - |
| Imports | 115 | 60p | - |
| Waterway traffic | 113 | 34 | - |
| Wholesale trade | 103 | 76 | - |
| PRIMARY DISTRIBUTION GROUP | 106 | 57 | - |
| Department store sales | 101 | 76 | - |
| Chain grocery | 104 | 77 | - |
| Other chain | 107 | 78 | - |
| Mail order | 116 | 75 | - |
| Advertising | 102 | 59 | - |
| Automobile registrations | 115 | 31p | - |
| DISTRIBUTION TO CONSUMER GROUP | 105 | 70 | - |
| Life insurance | 99 | 73 | - |
| Postal receipts | 101 | 69 | - |
| Electric power | 107 | 68p | - |
| Corporations formed | 101 | 83 | - |
| GENERAL GROUP | 102 | 68 | - |
| TOTAL VOLUME OF DISTRIBUTION OF GOODS | 105 | 65 | - |
| Production of producers goods | 113 | 49 | - |
| Production of consumers goods | 103 | 77 | - |
| Automobile production | 136 | 37 | - |
| Employment | 105 | 64 | - |
| Building construction | 115 | 31 | 22p |
| PRODUCTIVE ACTIVITY GROUP | 110 | 57 | - |
| TOTAL VOLUME OF PRODUCTION AND DISTRIBUTION OF GOODS | 106 | 63 | 62p |
| New York City debits | 130 | 57 | - |
| Shares sold on N. Y. Stock Exchange | 237 | 56 | 59 |
| New capital issues | 130 | 14 | - |
| Trading in grain futures | 98 | 48 | - |
| FINANCIAL GROUP | 130 | 44 | - |
| Outside debits | 107 | 63 | 62p |
| TOTAL VOLUME OF TRADE | 106 | 61 | - |

p = preliminary

(TENTATIVE DRAFT - Intended only as basis for discussion and not recommended for approval.)

July 14, 1932

SUBJECT: DISCOUNTS FOR INDIVIDUALS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July , 1932, provides as follows:

"For a period of two years in unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe. No note, draft, or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes."

In view of the exceptional and unusual nature of the power conferred upon the Federal reserve banks by this provision, and in view of the limited period during which it is effective, the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals or corporations who may apply to them for discounts.

I. LEGAL LIMITATIONS.

It will be observed that, by the express terms of the above provision of law:

1. Federal reserve banks may discount eligible paper for individuals and corporations only:
 - (a) In unusual and exigent circumstances,
 - (b) Within two years from July , 1932,
 - (c) When authorized by the affirmative vote of
not less than five members of the Federal
Reserve Board, and
 - (d) During such periods as the Federal Reserve Board
may prescribe;
2. They may discount for individuals and corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act.
3. Such paper must be indorsed and otherwise secured to the satisfaction of the Federal reserve bank;
4. Before discounting paper for any individual or corporation, the Federal reserve bank must obtain evidence that such individual or corporation is unable to obtain adequate credit accommodations from other banking institutions;
5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board;

6. Paper discounted for individuals and corporations is not eligible as collateral security for Federal reserve notes; and

7. All discounts for individuals or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. PERMISSION OF THE FEDERAL RESERVE BOARD.

1. Permission to discount eligible notes, drafts, and bills of exchange for individuals and corporations will be granted by the Federal Reserve Board only upon written application of a Federal Reserve Bank containing a full statement of the exceptional and exigent circumstances which, in the judgment of the Board of Directors of the Federal reserve bank, justify such action.

2. Such permission will be granted for periods specified by the Federal Reserve Board, not exceeding six months; but applications for renewals of extensions of the Board's permission will be accepted and considered at any time during the two weeks preceding the expiration of an existing authorization.

3. Requests for renewals or extensions of such permission must be made in the same manner as an original application.

III. ELIGIBILITY.

1. When authorized by the Federal Reserve Board, the Federal reserve banks may discount for individuals or corporations, eligible commercial, industrial and agricultural paper actually owned by such individuals or corporations and bearing their indorsement.

2. In order to be eligible for such discount, notes, drafts and bills of exchange must comply as to maturity and in all other respects

with the provisions of Section 13 or Section 13(a) of the Federal Reserve Act and with the applicable requirements of the Board's Regulation A.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual or corporation for the discount of eligible paper by the Federal reserve bank must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;
2. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which application for such credit accommodations has been made, the dates upon which such applications were made, whether such applications have been definitely refused and the reasons, if any, given for such refusal;
3. Financial statements of the applicant and the principal obligors on the paper offered for discount;
4. A list of all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate dates upon which such banking relations commenced and terminated;
5. Evidence sufficient to satisfy the Federal reserve bank as to,

-5-

(a) the legal eligibility of the paper offered for discount and (b) its acceptability from a credit standpoint;

6. A list and description of the collateral or other security offered by the applicant; and

7. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish to the Federal reserve bank when requested, additional financial statements, copies of recent auditors' reports, and other credit information, and (b) to submit to audits, credit investigations and examinations by representatives of the Federal reserve bank, whenever the Federal reserve bank shall so desire.

V. GRANTING OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. Whether any member bank located in the territory served by such applicant is willing to grant the credit accommodations for which application has been made to the Federal reserve bank;

2. Whether the applicant is unable to obtain adequate credit accommodations from other banking institutions;

3. The financial condition and credit standing of the applicant and the need for the credit accommodations applied for;

4. Whether the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

5. Whether the security offered is adequate to protect the Federal reserve bank against loss; and

6. That the proceeds of such discount will be used for a purpose which would give rise to paper which would be eligible for discount under other provisions of the Federal Reserve Act, if offered by member banks.

In discounting paper for individuals or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. LIMITATIONS.

No Federal reserve bank shall discount for any one individual or corporation paper amounting in the aggregate to more than one per cent of the paid in capital stock of such Federal reserve bank.

VII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank which obtains permission from the Federal Reserve Board to discount eligible paper for individuals and corporations may issue a circular prescribing such additional requirements and procedure respecting such transactions as it may deem necessary or advisable; provided that it is not inconsistent with the provisions of the law and the Board's regulations and with the terms of this letter.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

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(Preliminary Rough Draft)

DISCOUNTS FOR INDIVIDUALS AND CORPORATIONS.

I. STATUTORY PROVISIONS.

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July , 1932, provides as follows:

"For a period of two years in unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank; Provided, That before discounting any such note, draft, or bill of exchange for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe. No note, draft, or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes."

II. ELIGIBILITY

The eligibility of notes, drafts, and bills of exchange for rediscount, when offered by member banks, is governed by the provisions of Sections 13 and 13(a) of the Federal Reserve Act and by Regulation A of the Federal Reserve Board; and, in order to be eligible for discount when offered by individuals or corporations, such paper must comply as to maturity and in all other respects with those requirements and, in addition thereto must comply with the requirements of the third paragraph of Section 13, quoted above, and with this Regulation.

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The Federal Reserve banks will not be permitted to make direct loans or advances to individuals or corporations but only to discount, upon the indorsement of such individuals or corporations, and within the limitations prescribed by law and regulations, eligible commercial, industrial and agricultural paper actually owned by such individuals or corporations.

III. PERMISSION OF THE FEDERAL RESERVE BOARD.

Permission to discount eligible notes, drafts, and bills of exchange for individuals and corporations will be granted by the Federal Reserve Board only upon written application of a Federal Reserve Bank accompanied by a certified copy of a resolution of its Board of Directors containing a complete and definite statement of the exceptional and exigent circumstances which, in the judgment of the Board of Directors of the Federal reserve bank, justifies such action.

Such permission will be granted only for definite periods of time and will be subject to revocation by the Federal Reserve Board at any time.

Requests for renewals or extensions of such permission must be made in the same manner as an original application.

No such permission will be granted for a period in excess of six months, but applications for renewal or extensions of the Board's permission will be accepted and considered at any time during the two weeks preceding the expiration of an existing authorization.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual or corporation for the discount of eligible paper by the Federal Reserve bank must be filed in writing on a form furnished for that purpose by the Federal reserve

bank and must contain, or be accompanied by the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which application for such credit accommodations has been made, the dates upon which such applications were made, whether such applications have been definitely refused and the reasons, if any, given for such refusal;

3. Financial statements of the applicant and of all makers, drawers, acceptors, endorsers, sureties, and guarantors on the paper offered for discount;

4. A list of all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding five years, with the approximate dates upon which such banking relations commenced and terminated;

5. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount and (b) its acceptability from a credit standpoint; and

6. A list and description of the collateral or other security offered by the applicant.

The application and all statements made by the applicant, including his financial statement, must be verified by affidavits, and all other financial statements supporting the application, must be supported by affidavits.

V. INVESTIGATION BY FEDERAL RESERVE BANK.

Before granting any discount to an individual or corporation, a Federal reserve bank shall:

1. Communicate with every bank to which the applicant has applied for such credit accommodations and obtain from each such bank a report as to (a) the truth of the statements made by the applicant, (b) whether such credit accommodations were in fact refused, and (c) if so, the reasons for such refusal.

2. Furnish to each bank with which the applicant has had banking relations during the preceding five years and to each member bank located in the territory served by such applicant a copy of the application and supporting documents and obtain from each such bank a statement as to whether such bank is then willing to grant to such applicant the credit accommodations for which he has applied to the Federal reserve bank.

VI. GRANTING OR REFUSAL OF DISCOUNT.

No Federal reserve bank shall discount notes, drafts, or bills of exchange for an individual or a corporation:

1. If any other bank has advised the Federal reserve bank that it is willing to extend adequate credit accommodations to the applicant;

2. If the paper offered for discount is not clearly acceptable from a credit standpoint as well as eligible from a legal standpoint;

3. Unless the security offered is entirely adequate to protect the Federal reserve bank against loss, in view of the fact that the Federal reserve bank would not have the protection of the endorsement of a member bank;

4. If any material statement made by the applicant in his application or any supporting document is found to be false; or

5. Unless the financial statements of the applicant and of the principal obligors on the paper offered for discount disclose a reasonable excess of quick assets over current liabilities.

In discounting paper for individuals and corporations, a Federal reserve bank shall enter into no commitment whatsoever as to the renewal or extension of such paper or as to the granting of further or additional discounts.

VII. LIMITATIONS

In determining whether to discount paper for individuals and corporations, the Federal reserve banks shall have due regard to the probable future needs of their own member banks; and, no Federal reserve bank shall discount paper for any individual or corporation when its own reserves amount to less than fifty per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation.

The aggregate amount of paper discounted by any Federal reserve bank for corporations and individuals shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal reserve bank,

No Federal reserve bank shall discount for any individual or corporation paper amounting in the aggregate to more than one per cent of the capital of such Federal reserve bank,

VIII. RATE OF DISCOUNT.

Discounts for individuals and corporations shall be made by Federal reserve banks only at special rates established by the Board of directors of the Federal reserve bank for that purpose. The Federal Reserve Board will not approve any rate established for this purpose which is less than, (a) 2% per annum above the current rate at which the Federal reserve bank discounts similar paper for its member banks, or (b) six per cent, whichever is the greater.

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CONFIDENTIAL

Not for publication

B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JUNE 1932

| Federal Reserve Bank | Month of June 1932 | | | | | Jan. - June 1932 | | | | | | |
|----------------------|--------------------|------------------|-------------------|---------------|------------|------------------------------------|------------|----------------------|--------------------------|----------------------|--------------------------|---|
| | Earnings from | | | | | Current expenses | | Current net earnings | | Current net earnings | | |
| | Dis-counted bills | Pur-chased bills | U. S. secur-ities | Other sources | Total | Exclusive of cost of F.R. currency | Total | Total | Ratio to paid-in capital | Total | Ratio to paid-in capital | Less accrued dividends and net charges (current) to profit and loss |
| | | | | | | | | | Per cent | | Per cent | |
| Boston | \$86,315 | \$10,274 | \$141,291 | \$9,005 | \$246,885 | \$144,016 | \$151,623 | \$95,262 | 10.1 | \$621,549 | 10.8 | \$269,736 |
| New York | 256,264 | 49,361 | 1,039,695 | 143,966 | 1,494,286 | 511,266 | 536,275 | 958,011 | 19.8 | 4,935,346 | 15.6 | 3,204,895 |
| Philadelphia | 191,803 | 13,580 | 187,252 | 19,785 | 412,420 | 140,629 | 151,390 | 261,030 | 19.6 | 1,709,521 | 20.9 | 1,265,599 |
| Cleveland | 150,983 | 13,927 | 236,485 | 22,286 | 425,681 | 197,785 | 205,513 | 220,168 | 18.8 | 1,616,818 | 22.6 | 1,156,182 |
| Richmond | 72,855 | 7,987 | 68,251 | 7,992 | 157,085 | 111,386 | 114,930 | 45,155 | 10.6 | 290,702 | 11.0 | 133,336 |
| Atlanta | 97,793 | 5,413 | 71,904 | 14,778 | 189,888 | 93,802 | 98,522 | 91,366 | 22.9 | 426,733 | 17.3 | 277,375 |
| Chicago | 97,135 | 18,790 | 344,707 | 56,633 | 517,265 | 267,956 | 288,920 | 228,345 | 16.1 | 1,481,820 | 17.0 | 948,212 |
| St. Louis | 38,115 | 4,660 | 86,499 | 5,516 | 134,790 | 107,099 | 108,061 | 26,729 | 7.3 | 119,378 | 5.3 | -26,067 |
| Minneapolis | 30,869 | 2,643 | 84,843 | 2,548 | 120,903 | 73,562 | 74,946 | 45,957 | 19.2 | 213,887 | 14.6 | 123,931 |
| Kansas City | 70,279 | 3,575 | 73,432 | 30,436 | 177,722 | 129,187 | 131,890 | 45,832 | 13.7 | 268,433 | 13.1 | 140,570 |
| Dallas | 40,074 | 3,619 | 56,654 | 3,061 | 103,408 | 90,729 | 90,812 | 12,596 | 3.9 | 107,255 | 5.4 | -19,394 |
| San Francisco | 266,503 | 15,901 | 142,505 | 16,956 | 441,865 | 181,538 | 182,347 | 259,518 | 29.3 | 1,685,841 | 30.6 | 1,330,186 |
| TOTAL | | | | | | | | | | | | |
| June 1932 | 1,398,988 | 149,730 | 2,535,518 | 337,962 | 4,422,198 | 2,048,956 | 2,132,229 | 2,289,969 | 18.0 | | | |
| May 1932 | 1,417,181 | 169,044 | 2,456,046 | 190,282 | 4,232,553 | 2,040,235 | 2,109,588 | 2,122,965 | 16.2 | | | |
| June 1931 | 407,969 | 120,887 | 897,925 | 371,852 | 1,798,633 | 2,108,007 | 2,143,358 | -344,725 | -- | | | |
| Jan.-June 1932 | 11,451,151 | 2,013,849 | 11,437,424 | 1,482,439 | 26,384,863 | 12,375,109 | 12,907,580 | 13,477,283 | 17.3 | 13,477,283 | 17.3 | 8,804,561 |
| 1931 | 2,759,704 | 1,155,891 | 6,480,513 | 939,946 | 11,336,054 | 12,787,672 | 13,587,250 | -2,251,196 | -- | -2,251,196 | -- | -6,256,051 |

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

JULY 12, 1932.

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*See draft.
Regulation
Glan Amendment*

See 14

ANALYSIS OF NEW PARAGRAPH OF SECTION 13 OF THE FEDERAL RESERVE ACT
AS PROVIDED FOR BY SECTION 210 OF H.R. 9642 AS AMENDED AND PASSED
BY THE SENATE ON JULY 11 (CALENDAR DAY JULY 12), 1932.

At any time during the next two years, when in the judgment of the Federal Reserve Board, unusual and exigent circumstances exist, it may, by the affirmative vote of not less than five of its members, authorize any Federal reserve bank to discount notes, drafts, or bills of exchange for any individual or corporation, subject to the following conditions and limitations:

(a) In order to be eligible for discount for an individual or corporation, a note, draft or bill of exchange must be of such a kind and of such a maturity that it is eligible for discount for a member bank under the existing provisions of the Federal Reserve Act, except that the indorsement of a member bank is not required.

(b) Such discounts may be made only during such periods as may be determined by the Federal Reserve Board; but, during any such period, it is not necessary for any Federal reserve bank so authorized to obtain the Board's consent in each case before discounting paper for an individual or corporation. Upon the expiration of any such period no further discounts for an individual or corporation may be made unless and until the Board, by the affirmative vote of five members, has extended such period or again granted permission for such discounts. If it should so desire, the Federal Reserve Board might require that its permission be obtained in each case before the discount of paper for an individual or

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(c) The rates at which such discounts may be made shall be established from time to time by the Federal reserve banks, subject to the review and determination of the Federal Reserve Board, and shall be fixed with a view of accommodating commerce and business.

(d) A note, draft or bill of exchange discounted for an individual or corporation must be indorsed to the satisfaction of the Federal reserve bank. An indorsement whether of a bank or otherwise is sufficient, if satisfactory to the Federal reserve bank. If such note, draft or bill of exchange has been acquired from or bears the indorsement or signature of a nonmember bank it may not be discounted except in cases where it may be discounted for a member bank under existing law.

(e) A note, draft or bill discounted for an individual or corporation must not only be indorsed but must also be otherwise secured to the satisfaction of the discounting Federal reserve bank. No restriction as to the kind or class of security is provided.

(f) Such a note, draft or bill may be discounted only when the Federal reserve bank has obtained evidence that the individual or corporation for which such discount is to be made is unable to secure adequate credit accommodations from banking institutions other than Federal reserve banks.

(g) All such discounts shall be subject to such limitations, restrictions and regulations as the Federal Reserve Board may prescribe.

(h) No such note, draft or bill of exchange discounted for an individual or corporation shall be eligible as collateral security for Federal reserve notes.

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See Bk

July 13, 1932

Honorable Carter Glass,
United States Senate,
Washington, D. C.

Dear Senator Glass:

At a meeting of the Federal Reserve Board held this afternoon, I was requested to suggest to you that wherever the words, "individual or corporation" occur in the new amendment to Section 13 of the Federal Reserve Act, the following be substituted: "For any individual, partnership, association or corporation".

I was very glad that you approved the suggestion that Governor Meyer be relieved of his duties as Chairman of the Reconstruction Finance Corporation and I sincerely hope you will be able to arrange this. The Governor is very much fatigued and his associates feel that he should be relieved of the work on this Corporation which he has done so well.

Sincerely yours,

P. S. I enclose a memorandum showing just where the changes above suggested should be made.

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Bk 8

June 23, 1932.

To Federal Reserve Board
From Mr. Smead

Subject: Operating efficiency of Federal
reserve banks.

Attached hereto is a copy of our usual annual statement, covering the year 1931, on output per employee and output per unit of cost in the principal operating departments at the head offices of the Federal reserve banks.

As compared with 1925, the first year for which these data are available, output per employee, for the head offices of all Federal reserve banks combined, was approximately 37 per cent higher in 1931, while output per unit of cost was 27 per cent higher. The smaller increase in output per unit of cost is accounted for by the fact that the average salary paid clerical employees in these departments increased from \$1,351 in the first half of 1925 to \$1,486 in the first half of 1931. The increased output per employee is directly reflected in the fact that, although there has been a substantial increase in the volume of work handled, the number of employees in these principal departments declined from 3,550 in 1925 to 2,943 in 1931, or by 607*. The average number of employees in 1931 in the operating units for which a measurement of volume of work is available, 2,943, was about 50 per cent of the total number of clerical employees at the head offices of the reserve banks. The cost figures shown in the attached statement represent the cost of handling work in the operating units of the departments exclusive of administrative costs.

It will be noted from the statement that both output per employee and output per unit of cost increased substantially in 1931 as compared with 1930, which is a relatively good showing considering the fact that the volume of work declined somewhat in 1931. It will also be noted that, in a few of the smaller

units, there was an abnormal change in the volume of work handled. This is due in some cases to a change in operating procedure or method of reporting. For example, in 1931 the Federal Reserve Bank of Minneapolis began handling grain drafts for local banks in the City Collection departments. As these items are handled in practically the same manner as checks, and since it was possible to handle such items without increasing the personnel, the increase in output per employee shown for this unit does not measure the change in relative efficiency in handling these items during the year. Similarly, the increase in the number of City Checks (clearings) at the Federal Reserve Bank of New York, and the corresponding decrease in the number of City Checks (other than clearings), is due largely to a change in the Manual of Instructions governing the preparation of functional expense reports, as a result of which items collected through suburban clearing house associations are now counted as City Checks (clearings) rather than as City Checks (other than clearings). Items reported as City Checks (other than clearings) are now limited to those collected by messenger.

Expenses as reported in the functional expense reports, form E, are not published by the Board, the published expense figures being classed merely according to object of expenditure as shown in current expense reports, form 96. According to these current expense reports, the salaries of clerical employees declined \$556,000 between 1925 and 1931. This decline was approximately offset by an increase of \$324,000 in officers' salaries and of \$222,000 in salaries of "other employees," largely building employees, cafeteria employees, guards, etc. The increase in "other employees" resulted

largely from the moving of a number of branches out of rented quarters into buildings constructed by the Federal reserve banks for their use. Between 1925 and 1931 there was a decrease in total current expense, exclusive of cost of currency, of \$164,000, and in total current expense, including the cost of Federal reserve currency, of \$487,000.

*Of the decrease of 241 in the number of employees in these departments in 1931 as compared with 1930, approximately 70 was due to a decline in the volume of work and the remainder to an increase in the output per employee.

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Report of Carl P. Dennett, Chairman of the Banking and Industrial
Committee of the First Federal Reserve District,
dated July 12, 1932.

Analysis.

Reports received from 142 Committees, representing approximately 40% of
the population of the Union:

1. Banks unable or unwilling to grant sound loans for business
purposes other than real estate loans:

Yes 27. (19%)
No. 115.

2. Are there any projects, commercial, industrial, or municipal,
that are held up for lack of credit? Would they be
executed if credit from some source outside were made available?

Yes 17. (12%)
No. 125.

3. Is there a sound basis and need for additional housing facilities?

Yes 11. (76%)
No 133.

4. What is the situation with respect to real estate loans?

Answer: Difficult or impossible with reference to
obtaining money on real estate mortgages.

Yes 79. (60%)
No 51.

5. Is outside capital required for real estate loans?

Yes 24. (18%)
No 106.

In analyzing these reports, it is astonishing to find a lack of complaint with reference to credit conditions. There are some exceptions, but generally speaking, there is no complaint about the credit conditions in New England.

Real Estate Situation.

6. Are building and loan associations in your section in position to loan money on sound mortgages?

No 19. (70%)
Yes 9.

7. Is there any considerable demand for real estate loans which can not be satisfied with present facilities?

Yes 21. (75%)
No 7.

8. Is there any need for additional housing facilities in your section?

Yes 4. (15%)
No 23.

9. Is there a demand for sound real estate loans for repair purposes on existing homes?

Yes 22. (78%)
No 6.

10. Would any considerable number of new homes be built if loans could be arranged on a sound basis, - say 60%?

Yes 6. (22%)

No 21.

Summary.

1. 19% declare instances of banks unable or unwilling to grant sound loans for business purposes other than real estate loans.
2. 12% state that there are projects, commercial, industrial, or municipal, that are held up for lack of credit which would be executed if credit from some source outside were made available.
3. 76% state that there is a sound basis and need for additional housing facilities.
4. 60% state that the situation as to real estate loans is difficult or impossible with reference to obtaining money on real estate mortgages.
5. 18% state that outside capital is required for real estate loans.

Real Estate Situation.

6. 70% report that building and loan associations are not in position to loan money on sound mortgages.
7. 75% report that there is a considerable demand for real estate loans which can not be satisfied with present facilities.
8. 15% report that there is need for additional housing facilities.

9. 78% report that there is a demand for sound real estate loans for repair purposes on existing homes.
10. 22% report that a considerable number of new homes would be built if loans could be arranged on a sound basis, - say 60%.

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Mr. Hamilton

RUSH

See Bn

MEMORANDUM

July 22, 1932

To: The Federal Reserve Board

From: Walter Wyatt, General Counsel.

Subject: Comments of Chairman and Governors of Federal reserve banks on July 16 Draft of Circular re Discounts for Individuals, Partnerships and Corporations.

Six of the Federal reserve banks (Cleveland, Atlanta, Chicago, St. Louis, Dallas and San Francisco) and Deputy Governor Hutt of the Federal Reserve Bank of Philadelphia either stated that they were satisfied with the draft of the circular regarding discounts for individuals, partnerships or corporations sent to them on July 16, 1932 (X-7201a) or suggested no material changes therein.

Five of the Federal reserve banks (Boston, New York, Richmond, Minneapolis and Kansas City) and Chairman Austin of the Federal Reserve Bank of Philadelphia suggested material changes.

The important questions about which differences of opinion developed and the views expressed by the various banks will be summarized below. In summarizing their views on these questions, those banks which stated generally that they were satisfied with the circular and those which made no specific comment on the particular question being discussed will be treated as favoring the position taken in the draft of July 16.

DIRECT LOANS.

Section III of the draft of July 16 provided that Federal reserve banks could discount for individuals, partnerships or corporations eligible commercial, industrial and agricultural paper actually owned by such individuals, partnerships or corporations and bearing their indorsement. It left open the question whether Federal reserve banks could make direct

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loans to individuals, partnerships or corporations; but the Federal reserve banks apparently interpreted it as not permitting them to do so.

On this point, eight of the banks (Cleveland, Richmond, Atlanta, Chicago, St. Louis, Dallas and San Francisco) and Deputy Governor Hutt (Philadelphia) favored the circular as drawn;

Four of the banks (Boston, New York, Minneapolis and Kansas City) and Chairman Austin (Philadelphia) feared that the benefits of the amendment would be restricted too severely if the Federal reserve banks were not permitted to make direct loans.

The views of those who commented specifically on this point are summarized below:

BOSTON: We approve of letter except the words in Sec. III, "actually owned by such individuals, partnerships or corporations and bearing their indorsement". Believe this should be eliminated because cattle loan companies are about the only corporations that we can recall at the moment that would be able to function. We believe if we are to function in making loans direct that it will be necessary for borrowers to set up corporations with capital whose main business will be indorsing.

NEW YORK: Section three, paragraph one, would operate to limit eligible paper to the notes receivable of the borrower. While this will probably be desirable in most cases, it would appear to be unnecessary and perhaps unwise to so limit paper which can be accepted.

RICHMOND: Section I. Legal Requirements.-- Subsection 2 states

that the Federal Reserve Banks may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, etc. In this case, under the present Act member banks' own notes are eligible for discount, whereas under Section III, subsection 1 of the Board's memorandum, "Eligibility", the direct obligations of individuals, partnerships or corporations, even if endorsed or secured, are not made eligible, but only the business paper actually owned by such individuals, partnerships or corporations bearing their endorsement and secured is made eligible. Frankly, we should prefer to have the Board's memorandum remain as it is because capital loans are under Section V of the Board's memorandum, subsection 5, prohibited, and it would not be possible for any individual, firm or corporation to obtain a capital loan, directly or indirectly under Section III, which makes eligible only paper actually owned by applicants; nevertheless, this comment seems called for.

CHICAGO: After careful consideration and consulting with counsel it is our understanding from both the act and regulations that we may rediscount for individuals, partnerships and corporations only such eligible paper of others which they may own and endorse the same as we now rediscount for member banks their own paper endorsed by them this would preclude our taking direct from them their notes signed by themselves as their commercial banks would do. We also understand eligible paper does not include type of loans provided by Glass-Steagall Bill and that paper which we can rediscount as above may be available to secure currency issues. If our understanding as outlined above is

correct we think proposed regulations are in satisfactory form.

MINNEAPOLIS: Section 5 regarding eligibility says paper must be actually owned by the individual, partnership or corporation offering it, which would seem to limit offerings to concerns like agricultural credit corporation and livestock loan companies. There might be a situation where a canning factory in a small town might be unable to get the necessary credit to pack and carry their peas and corn. They could however, offer us their note with the endorsement of the directors and secured by warehouse receipts for canned goods in storage, which would seem to come under the terms of the act and yet would not be paper actually owned by the endorser who might offer it.

KANSAS CITY: It is the opinion our counsel that tentative draft proposed circular X-7201a correctly interprets Glass/Amendment providing for discounts for individuals partnerships and corporations under strict construction of the amendment in the light of the provisions of the Federal Reserve Act which are amended and the Act of which it is a part, but that standing alone the act would permit of construction authorizing advances direct to borrowers of the classes mentioned. Debates in Congress and proceedings before committees on the amendment not yet available here but it is our understanding that Congress intended to authorize direct loans where credit not available through commercial banks or other credit channels. The provision of the act which reads "When such notes, drafts and bills of exchange are endorsed and otherwise secured to the satisfaction of the Federal Reserve Bank" should be interpreted to mean, in our opinion, if the same is at all permissible, "When such notes, drafts and bills of exchange are endorsed or otherwise

secured to the satisfaction of the Federal Reserve Bank". Otherwise ordinary commercial and industrial loans as a practical matter cannot be rediscounted at the Federal Reserve Banks for the reason that industrial and commercial corporations in the main have no security to pledge even though their financial statements may entitle them to credit. Such concerns could probably furnish accommodation endorsers and we consider the final test should be whether such notes are eligible and are good and collectible. We believe the tentative draft of the circular would make the act almost wholly inoperative in this district except possible for livestock and agricultural loans through cattle loan companies or other such organizations. With funds available through the intermediate credit banks and the RFC it should be possible for the latter class of loans to be handled as satisfactorily as could be done under the provisions of this act. The suggested construction of the words "and otherwise secured" might be justified on the theory that the loan is otherwise secured if in addition to bearing an endorsement it is accompanied by a satisfactory financial statement. In short we believe that as an aid to commerce, industry and agriculture this act is a mere gesture unless there can be read into it an intent on the part of Congress that loans may be made direct when the paper is endorsed even though by an accommodation endorser and further in any event that a construction of the words "and otherwise secured" which requires a pledge of or a lien on property will largely deprive commerce and industry of the benefits of the act.

(See alternative substitute for Section III)

REQUIRING BOTH INDORSEMENT AND SECURITY

See Governor Hamilton's telegram which is quoted in full above. No one else objected to this requirement, which is contained in the law itself. This is not one of the rare cases where "and" can properly be construed as meaning "or".

USING PROCEEDS TO PAY OFF INDEBTEDNESS.

The Federal Reserve Bank of Minneapolis, Chairman Austin (Philadelphia) and Messrs. Goldenweiser and Smead question the advisability of the provision in Section V (p.6) of the draft of July 16, which forbade Federal reserve banks to discount paper for individuals, partnerships or corporations if the proceeds are to be used to pay off existing indebtedness to other banking institutions; and the revised draft (Sec. III, p. 4) modifies this prohibition by inserting the words, "Except with the permission of the Federal Reserve Board".

The comments were as follows:

DR. GOLDENWEISER: I am inclined to question the absolute prohibition of borrowing under this proviso for the purpose of paying off existing indebtedness. While ordinarily such loans should not be granted, circumstances might arise where a bank is pressing a firm for repayment of a loan, and this is threatening failure to the firm. I should think that if all other circumstances are all right, the Federal reserve bank might very well be permitted to grant a loan to such a firm.

MR. SMEAD: In the paragraph on page 6 relating to the purposes for which the proceeds of the discounts are to be used, it is stated that they must not be used for the purpose of paying off existing indebtedness to other banking institutions. While this in general is no doubt a good pre-

vision, I am wondering whether it is wise to close the door against all such loans. Might there not be instances where the granting of such loans may be in the best interests of the community?

MINNEAPOLIS: We feel too that the provision that loans cannot be made to pay off existing indebtedness is too drastic. Cases might arise where it would be advisable to make a loan to pay off a receiver of a closed bank who would otherwise sell the debtor out.

Mr. AUSTIN: As the paper we might discount would be what is so-called "self-liquidating paper" that is, such paper would be obligations of other parties and form a part of the capital of the borrower, he would not have to provide for its payment, and we do not see why there would be any objection to allowing the proceeds of such paper to be used for fixed investment or other capital purposes, or even liquidating indebtedness to other banks, which banks might be pressing the borrower for payment. The intended purpose of the Act is to provide means for stimulating business, starting up factories, etc. and in such cases it probably would be necessary to make some expenditures for capital purposes or other fixed investments, and we cannot see any objection to so using some of the proceeds of such discounts.

RATE OF DISCOUNT.

The following are the only comments on this subject, except a comment by Governor Seay regarding a matter of procedure:

GOVERNOR McDOUGAL: In respect to interest rates to be charged on

discounts it is important that consideration be given to the fact that the average borrower from a commercial bank is expected to maintain a deposit balance. Under these circumstances the minimum rate charged by Federal Reserve Banks should be kept at least a fraction higher than prevailing counter rates otherwise borrower would have a preferential rate here.

SAN FRANCISCO: In connection with section VI may we assume in view of wide variation in twelfth district in interest rates for same class of paper board would approve a 2% spread between minimum and maximum discount rates.

DR. GOLDENWEISER: I am inclined to think that the rate of interest should always be somewhat higher than the prevailing rate on the same class of paper.

PERMISSION OF FEDERAL RESERVE BOARD.

There were some helpful suggestions regarding the phraseology of Section II; but the following are the only comments on matters of substance:

GOVERNOR SEAY: Sub-section 1 states that permission to a Federal Reserve Bank can only be granted upon written or telegraphic application of a Federal Reserve Bank, containing a full statement of the unusual and exigent circumstances which in the judgment of the Board of Directors of the Federal Reserve Bank justifies such action. In the case of this bank, and of some other Federal Reserve Banks, directors' meetings occur only once a month, and unless a special meeting of the directors of this bank is called (their monthly meeting having just been held), this

bank would not be able to act in the matter for a month from this date, and in the meantime will therefore not be able to issue any circular, as provided for in Section VIII of the Board's memorandum.

Inasmuch as this amendment to the Act is a permanent provision, and inasmuch as the exigencies of the current situation are well known and understood, also inasmuch as all Federal Reserve Banks in good faith are called upon to act under this amendment, it would seem that under existing circumstances no particular statement as to the unusual and exigent conditions would now be needed and that the application of a Federal Reserve Bank, through its officers or Executive Committee, might be adequate at this time.

MINNEAPOLIS: Paragraph 1 requires a full statement of the unusual and exigent circumstances, while paragraph 2 says the Board will not undertake to consider individual cases. It seems to us that the unusual and exigent circumstances are almost always in connection with individual cases rather than with the general conditions.

(See alternative draft of Section II.)

FORMS.

A suggested set of forms for use in connection with such discounts has been prepared by this office; but it is not believed to be necessary for the Board to consider or approve them, as they are intended only as suggestions and it is contemplated that the Federal reserve banks will be at liberty to make such changes as they deem advisable in the light of local laws, conditions, and practices.

Respectfully,

Walter Wyatt,
General Counsel.

6119

Office Correspondence

FEDERAL RESERVE
BOARD

Date July 22, 1932

To Mr. Hamlin

Subject: Glass Amendment to so-called
relief bill

From Mr. Wyatt, General Counsel.

... 2-8405

Dear Mr. Hamlin:

The following information with reference to the Glass Amendment to the bill to authorize supplemental appropriations to provide Federal aid in connection with the construction of State highways (H.R. 9642, 72nd Congress, 1st Session - now known as the "Emergency relief and construction act of 1932"), is furnished to you in response to the request contained in your memorandum of July 19, 1932. This act, which amends Section 13 of the Federal Reserve Act, was signed by the President on July 21, 1932, and is now known as Public Act No. 302.

As originally introduced by Senator Glass on July 11, 1932, his amendment to H.R. 9642 provided as follows:

"In unusual and exigent circumstances the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this act, when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank:

"Provided, That before discounting any such note, draft, or bill for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe. No note, draft, or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes."

On the same day, Mr. Wagner, Mr. Robinson of Arkansas, Mr. Pittman, Mr. Walsh of Montana, and Mr. Bulkley, proposed another amendment in the nature of a substitute for the bill as passed by the House, and, included in that amendment was a section which provided precisely the same as that contained in the amendment of Senator Glass, except for two unimportant changes in punctuation and except for the inclusion of the words "of exchange" after the word "bill" in the language immediately following ^{the} proviso clause.

As passed by the Senate on July 12, 1932, except for inserting the words "For a period of two years" before the words "In unusual and exigent circumstances" and except for one immaterial change in punctuation, this section read exactly the same as that contained in the amendment of Messrs. Wagner, Robinson, Pittman, Walsh and Bulkley.

As agreed upon by the conference committee, which, of course, is also the form in which it finally passed Congress, this section reads as

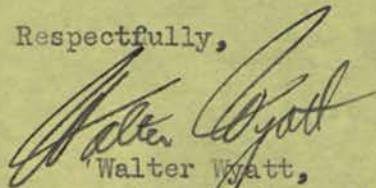
follows (the part shown in capital letters being new wording inserted in the Senate provisions and the part stricken through being wording omitted therefrom):

~~"For a period of two years~~ In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, PARTNERSHIP, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or A PARTNERSHIP OR corporation the Federal reserve bank shall obtain evidence that such individual, PARTNERSHIP, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, PARTNERSHIPS, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe. ~~No note, draft, or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes.~~"

In short, the legislative action upon this amendment may be described as follows: As originally introduced by Senator Glass, the amendment permitted the Federal Reserve Board, in unusual and exigent circumstances and upon the affirmative vote of not less than 5 of its members, to authorize the Federal reserve banks to discount for any individual or corporation paper eligible for discount for member banks under the Federal Reserve Act, if such paper was indorsed and otherwise secured to the satisfaction of the Federal reserve bank. It was also provided that the discounts were to be made only where the individual or corporation was unable to secure adequate accommodations from other banking institutions and that no paper so discounted should be eligible as collateral security for Federal reserve notes. The bill as passed by the Senate on July 12, 1932, incorporated Senator Glass' amendment but limited the authority to discount paper for individuals or corporations to a period of two years. The bill as agreed to in conference and as finally passed by Congress retains the substance of the Senate provisions, but extends the discount privilege to partnerships as well as to individuals and corporations, removes the two year limitation and eliminates the provision that the paper so discounted should not be eligible as collateral security for Federal reserve notes.

I am also attaching for your further information a copy of your original draft of this provision and a copy of Mr. Vest's revision.

Respectfully,


Walter Wyatt,
General Counsel.

July 9, 1932.

Mr. Hamlin's Draft.

Proposed amendment to Section 13, Federal Reserve Act :

The second paragraph of Section 13 of the Federal Reserve Act is hereby amended by adding the following :

"The Federal Reserve Board, by an affirmative vote of five members, in times of emergency, is hereby given the power to permit Federal reserve banks, for such periods as it may determine, to discount paper eligible under the Act directly for individuals or corporations said paper to have a satisfactory indorser but without requiring an indorsement of any bank, said paper to be subject to the maturity and other limitations now prescribed by said Act. The Federal reserve bank, before discounting any such paper, shall satisfy itself that the borrower can furnish satisfactory collateral and that it is unable to procure a loan from a member bank, and, on passing of the emergency, shall revoke its consent as to any future loans under this provision. "

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 13 of the Federal Reserve Act, as amended, is hereby further amended by adding at the end of the second paragraph thereof a new paragraph reading as follows:

" In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said Board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual or corporation, notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act, when such notes, drafts and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank; provided, that before discounting any such note, draft or bill for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions and regulations as the Federal Reserve Board may prescribe. No note, draft or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes. "

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