

## The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 235, FRBoard Members

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 11, 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 235 of Mr. Hamlin's scrap book and placed in the Board's files:

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Confidential

## HOARDED MONEY AND SHORT-TERM FOREIGN FUNDS AT SELECTED PERIODS

(In millions of dollars)

Period	Hoarded money		Short-term foreign funds held in New York	
	Date	Amount	Date	Amount
Collapse of bull market	(See note)		Oct. 31, 1929	2,871
Following large bank suspension in New York City	Jan. 3, 1931*	300	Dec. 31, 1930	2,335
Just before suspension of gold payments by Great Britain	Sep. 19, 1931*	840	Sep. 16, 1931	1,945
Month after suspension of gold payments by Great Britain	Oct. 24, 1931*	1,265	Oct. 21, 1931	1,467
When Reconstruction Finance Corporation began operations	Feb. 4, 1932	1,550	Feb. 3, 1932	1,256
Passage of Glass-Steagall Act	Feb. 27, 1932	1,470	Feb. 24, 1932	1,194
Low point of hoarded money in 1932	Apr. 27, 1932	1,330	Apr. 27, 1932	1,049
Following bank failures in Chicago and withdrawals elsewhere	July 20, 1932	1,680	July 20, 1932	616
At present	Oct. 5, 1932	1,450	Sep. 28, 1932	724

\*Average for week ended on the given date; other figures are for specified dates.

Note: Estimates have not been made of the amount of money held in hoards prior to the last week in October 1930 when a series of important bank suspensions began. The figures shown for subsequent periods represent the estimated amounts hoarded since that time.

FEDERAL RESERVE BANK OF NEW YORK.

References to Gold and Hoarding Situation.

Monthly Review, Jan. 1, 1932:

The early December demands on the banks were met partly out of the proceeds of gold imports, but the subsequent requirements were met largely by increased use of reserve bank credit. The monetary gold stock of the United States increased about 40 million dollars during December, and on December 30th was only 135 millions less than at the end of 1930, notwithstanding the extraordinary outflow of gold during the early autumn.

There were some further shipments to Europe in December ..... and a moderate increase in the amount of gold earmarked for foreign account, but these transactions were more than offset by continued gold imports, chiefly from the Far East. (Page 1)

The monetary gold of the United States continued to increase during the first three weeks of December, and showed only a moderate net reduction in the final week, with the result that a total increase of about 40 million dollars was reported for the month.

The increase in the gold holdings of this country that occurred in the first nine months of the year, has been resumed, following the large outflow of late September and October, so that the net loss of gold for the year 1931 has been reduced to about 135 millions.

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Business and Financial Summary, Jan. 12, 1932:

During the week ended January 6th, the New York money market gained through a substantial inflow of funds from other centers, and moderate payments from foreign balances held at the reserve bank, transactions which were only partly offset by a net withdrawal of Treasury funds from this market.

In view of this considerable net gain of funds in commercial and agency transactions, and of the very large surplus of reserves with which the New York city banks began the week, it was possible for the banks to retire 239 millions of borrowings, and for other forms of Federal reserve credit to contract substantially and still leave the reserve balances of the New York city banks slightly above requirements.

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Business and Financial Summary, Jan. 26, 1932:

During the week ended January 20th, further gains to the market occurred through an inflow of funds from other centers, currency deposits at the Reserve Bank, and other miscellaneous commercial and agency transactions. Partly offsetting these gains were losses through gold transactions and an increase in foreign balances held here, net Treasury transactions, and a decline in the Reserve System's bill holdings.

In the succeeding four days ended the 25th, the losses through net gold transactions, an increase in foreign balances held here, net Treasury transactions, a decline in Federal reserve bill holdings and other miscellaneous charges to the market, were materially larger than the continued gain to the market through the inter-district movement of commercial funds.

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Monthly Review, February 1, 1932:

Money market conditions during the past month have become somewhat easier, and the general level of money rates has declined moderately.

The January decline of money rates may be attributed partly to the continued reduction in member bank credit, and partly to the retirement of currency from circulation, which, however, was less rapid than usual for the time of year.

The large increase in Federal reserve credit in the autumn was in response to another emergency of the kind which the Reserve System was designed to meet, the third major occasion of the sort within three years.

Within three months, the demand for additional currency amounted to 700 millions, and there was a reduction in the same period of 700 millions in the monetary gold stock of the United States through earmarkings and exports. These demands were met by a rapid expansion of Federal reserve credit amounting to about 1 billion 300 millions. Subsequently, a further net increase in the amount of currency outstanding has been somewhat exceeded by a renewed inflow of gold, so that the principal influence on the demand for Federal reserve credit has been the accelerated decline in member bank reserves resulting from the extraordinarily rapid decline in loans and investments.

Despite the large increase in the amount of currency outstanding during the past year, the amount of currency in active use is probably no larger than a year ago, if as large. In a number of communities where banking facilities have been reduced by failures, currency must now be used where checks would normally be employed in personal and business transactions. A considerably larger amount probably represents inactive holdings by individuals.

During the past year, these reserve balances have declined by more than 20%, reflecting a corresponding shrinkage in bank deposits, partly as a result of the withdrawal of funds by domestic and foreign depositors, but more largely as the result of contraction in bank loans and investments. A large part of the reduction in the reserve balances and in deposits has occurred within the past four months.

During the first half of January, gold exports and imports and changes in ear-marked gold held for foreign central banks largely balanced, and the monetary gold stock of the United States showed virtually no net change from the end of December.

In the second half of the month there were fairly substantial exports, principally of gold, which had been previously ear-marked, but at the same time there were additional amounts of gold placed under ear-mark for foreign central banks. The net result was a decline of about 45 millions in the country's gold stock during this period.

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Business and Financial Summary, February 2, 1932:

During the week ended January 27, further gains to the market through an inflow of funds from other parts of the country and deposits of currency here largely offset losses through additional gold movements, Treasury operations, and a further decline in Federal reserve bill holdings.

In the succeeding four days which included the month-end currency withdrawals, continued net gold exports, and a further contraction in the Reserve System's bill portfolio were only partly offset by a reduction in foreign balances held here, and a small inflow of funds from other centers, so that actual reserves had declined to a level moderately in deficit by the close of business last night. Average balances for the three completed days of the period, however, remained in a favorable position.

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Business and Financial Summary, February 9, 1932:

During the week ended February 3rd, the inter-district movement of funds was away from New York for the first time since the week ended December 30th. In addition, currency was withdrawn from the reserve bank at the month end. The net result of gold exports and changes in ear-marked holdings was a reduction in the monetary gold stock, but this was offset

in the aggregate by a decline in foreign balances held at the Reserve Bank. Notwithstanding a marked decline in reserve requirements, the New York city banks subsequently found it necessary to increase their indebtedness at the Reserve Bank by about 19 millions, in order to maintain their reserve position.

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Business and Financial Summary, February 16, 1932:

During the week ended February 10th, the reserve balances of the New York city banks declined by about the same amount as did their reserve requirements, so that at the end of the week the reserve position continued to show a small excess. Funds moved to New York from other centers during this period, but Treasury transactions resulted in a net withdrawal of funds.

The reduction in the gold stock through operations in New York had little effect on the market as the amount was approximately offset by a decline in foreign balances at the Reserve Banks. Total reserve bank credit outstanding in this market was reduced moderately by repayment of member bank borrowings in excess of sales of bills to the Reserve Bank.

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Business and Financial Summary, February 23, 1932:

During the week ended February 17th, a rather large net loss of gold, a sizable withdrawal of funds from the market by the Treasury, and a decline in Federal reserve bill holdings were not entirely offset by a large inflow of funds from other parts of the country, a minor increase in New York city bank borrowings, and a further decline in reserve requirements. Consequently a moderate deficit in reserves developed by the close of the week.

Gold and Treasury transactions continued to take funds from the market during the succeeding three business days ending February 20th, and week-end and holiday currency withdrawals also resulted in a loss. Partial offsets occurred thru a further inflow of funds from other centers and other miscellaneous credits in addition to which the city banks borrowed 15 millions. At the opening of business today, (Tuesday) reserves of the New York city banks were somewhat above requirements, which had shown a further decrease during this period.

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Business and Financial Summary, March 1, 1932:

The decrease in bank reserves was the result of losses through Treasury operations, gold movements, and a reduction in outstanding Federal reserve credit, which were only partly offset by an inflow of funds to this market from other centers and payments to the market from foreign bank deposits held at the Reserve Bank.

In the four days ended February 29, there was a large inflow of funds here from other districts and further gains through foreign account disbursements which considerably exceeded the week-end and month-end withdrawals of currency. As these gains were accompanied by a reduction in Federal reserve bill holdings and in bank borrowings, and by a rise in the reserve requirements of the city banks, the actual reserves of the New York banks, though larger than on the preceding Wednesday, were still somewhat in deficit this morning. Average reserves, however, showed a moderate excess.

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Monthly Review, March 1, 1932:

In several important respects banking conditions showed substantial improvement during February. Bank closings were reduced to about one-third of the number in each of the two previous months, and the unseasonal currency withdrawals from banks in those months were followed by a moderate return flow of currency to the banks after the first week of February, indicating a cessation of the hoarding of currency.

The position of the dollar in relation to other currencies in the foreign exchange market was improved to a point where there was no longer a profit in exporting gold from the United States, and exports due to that cause ceased.

A month ago a number of the European currencies were at prices in the foreign exchange market which made it profitable to ship gold from New York to Europe, and substantial movements of gold were taking place for this cause in addition to gold exports undertaken as a matter of policy by European central banks representing withdrawals from this market of their balances. This condition of the exchanges apparently reflected some concern in European countries as to the possibility of inflation in the United States. The early discussions of the Glass-Steagall measure appeared to accentuate this concern somewhat, but as the provisions of this bill and the general situation here became better understood this concern passed, and, as a consequence of this and other influences tending to weaken the exchanges of a number of countries, the premiums on European currencies were steadily reduced until by the end of the month the prices of all were below the point at which gold shipments from the United States were profitable, and gold movements from that cause ceased, though European

Central banks continued to withdraw some of their balances here in the form of gold.

Discusses the Glass-Steagall Act February 27, 1932.

Quotes the President:

"By freeing the vast amounts of gold in our Federal Reserve System (in excess of the gold reserve required by law), it so increases the already large available resources of the Federal reserve banks to enable them beyond question to meet any conceivable demands that might be made on them at home or from abroad....."

Discusses Section 3 of the Glass-Steagall Act permitting substitution of bonds for gold behind Federal reserve notes.

States that the free gold now is about 420 millions, but that under the terms of the amendment it could, if necessary, be increased to about 1 billion 200 millions.

In practice this would enable the System to meet any large gold export or heavy currency demand more easily, for in the face of such a demand Government securities could be purchased and thus the necessity for a large increase in member bank discounts could be avoided. This is a matter of importance since the necessity for borrowing largely at the Reserve banks always exerts upon the member banks pressure for liquidation and always results in tight money conditions.

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## Office Correspondence

FEDERAL RESERVE  
BOARDDate October 14, 1932To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Van Fossen

... 2-8495

In accordance with your request we have prepared the attached statements showing (1) the amounts expended by the head office of the Federal Reserve Bank of New York during 1931 for general welfare work among employees, and (2) figures of free gold, earmarked gold and gold in circulation in January and February, 1932.

You will note that there was practically no change in the amount of gold coin in circulation but that the amount of gold certificates in circulation decreased \$27,000,000 in January and \$30,000,000 in February. The Federal reserve banks paid out substantial amounts of gold certificates during this period and the amount of certificates in circulation could obviously have been further reduced if the Federal reserve banks had adopted the policy of paying out these certificates only on request. It is impossible, however, to determine the extent to which the Federal reserve banks could have withdrawn gold certificates from circulation in exchange for Federal reserve notes. Gold acquired in exchange for Federal reserve notes would have to be pledged with the Federal reserve agents as collateral security for the Federal reserve notes so issued, unless the Federal reserve banks had other collateral available which, of course, was not the case when the Glass-Steagall bill was enacted. The withdrawal of gold certificates from circulation in exchange for Federal reserve notes would not, therefore, prior to February 27, 1932, have affected the amount of free gold held by the Federal reserve banks, although it would have increased the amount of gold

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that the Federal reserve banks could have released for export purposes, if, as would ordinarily be the case, member banks borrowed to obtain the gold for export.

From the end of January to the end of February the amount of discounted paper held by the Federal reserve banks declined from \$899,000,000 to \$828,000,000, of bills bought in open market from \$153,000,000 to \$109,000,000 and of United States securities from \$746,000,000 to \$740,000,000. Had the Federal reserve banks sold a substantial part of their holdings of United States securities, member banks would undoubtedly have been obliged to increase their borrowings in something like the same measure and free gold would have been increased by the amount of the increase in discounted paper, less 5 per cent to cover the redemption fund.

As regards hoarding during this period it is estimated that there was an increase of about \$245,000,000 in money hoarded in January and a decrease of about \$84,000,000 in February.

AMOUNTS EXPENDED BY THE FEDERAL RESERVE BANK OF NEW YORK  
(HEAD OFFICE ONLY) DURING 1931 FOR GENERAL WELFARE WORK  
AMONG EMPLOYEES

(Source: Functional Expense Reports, Form E)

Welfare and Medical	\$68,743
Cafeteria, net expense	66,243
Educational and Training	16,387
Employees' Group Life Insurance	11,298
Officers' and Employees' dinners	<u>558</u>
Total	163,229

MONTH-END FIGURES OF "FREE GOLD," EARMARKED GOLD, AND  
GOLD IN CIRCULATION

(In millions of dollars)

	<u>Free gold</u>	<u>Earmarked gold</u>	<u>Gold coin in circulation</u>	<u>Gold certifi- cates in circulation</u>
Dec. 31, 1931	384	459	409	877
Jan. 30, 1932	481	433	407	850
Feb. 29, 1932	*409	407	406	820

\*Not taking into account U. S. Government securities made eligible as collateral for Federal reserve notes by the Glass-Steagall Act; allowing for the \$740,000,000 of U. S. Government securities held "free gold" would amount to \$1,112,000,000.

*C. 11*

November 12, 1932.  
E-848

CONFIDENTIAL

TO: Mr. Morrill                               SUBJECT: Direct Loans to Individuals,  
FROM: Mr. Van Fossen                               etc.

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to November 5, 1932, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 539 applications refused, as shown in the statement, 293 were because of unsatisfactory security; 228 paper not eligible; 10 loans placed with other banks; 4 present credit deemed adequate; and 4 denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to November 9 and the amount of such loans outstanding on that date were as follows:

<u>Federal Reserve Bank of New York</u>		<u>Advanced</u>	<u>Outstanding</u>
Amawalk Nursery Company	Amawalk, N. Y.	\$15,000	\$15,000
Dorman Brothers	Astoria, N. Y.	5,000	4,700
Foster and Stewart Co.	New York, N. Y.	50,000	50,000
Friedman & Sons, Neckware Co., Inc.	New York, N. Y.	25,000	25,000
Joseph H. Meyer Brothers	New York, N. Y.	15,500	15,500
Miller-Cummings Co., Inc.	New York, N. Y.	125,000	125,000
Morris White Mfg. Co.	New York, N. Y.	31,000	31,000
New Jersey Flour Mills Co.	Clifton, N. J.	50,000	35,000
Scaramelli & Co., Inc.	New York, N. Y.	20,000	20,000
S. Shuff Sons, Inc.	New York, N. Y.	10,000	10,000
<u>Federal Reserve Bank of Philadelphia</u>			
J. F. Apple & Co., Inc.	Lancaster, Pa.	400	--
J. B. Henkeln (Henkeln & McCoy)	Philadelphia, Pa.	3,427	3,427

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<u>Federal Reserve Bank of Atlanta</u>		<u>Advanced</u>	<u>Outstanding</u>
Continental Turpentine & Rosin Corp.	Laurel, Miss.	\$19,750	\$19,750
Richmond Hosiery Company	Rossville, Ga.	50,000	50,000
Mississippi Cotton Seed Products Co.	Jackson, Miss.	48,000	48,000
 <u>Federal Reserve Bank of Minneapolis</u>			
Bricelyn Canning Co.	Bricelyn, Minn.	90,947	83,959
H. C. Ervin Co.	St. Cloud, Minn.	15,580	9,900
Kiddie Gym Co.	Minneapolis, Minn.	7,500	7,500
 <u>Federal Reserve Bank of Kansas City</u>			
New Mexico Lumber & Timber Co.	Bernalillo, N. Mex.	60,000	49,652*
(*Subject to slight revision)			

Following is a summary of reports received from the Federal reserve bank of New York under date of October 31 and from Philadelphia under date of November 3 on credit surveys recently completed.

GENERAL REPORT OF CREDIT NEEDS AND CONDITIONS IN THE NEW YORK FEDERAL RESERVE DISTRICT

National Industrial Conference Board Questionnaire

A country-wide questionnaire was sent out by the National Industrial Conference Board at the instance of the Banking and Industrial Committee shortly after the appointment of the latter. Of 3,438 answers received, 466 indicate a need for credit.

Banking and Industrial Committee Questionnaire

The Committee sent out a questionnaire in September mainly to chambers of commerce, merchants associations, farmers cooperative and other similar associations for distribution to their membership and others. Of 314 replies to October 3, 86 indicate a need for credit, of which 45

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were for the purpose of purchasing merchandise and raw materials and employment of labor. In only 10 of the 86 instances was credit desired for as short a period as 90 days, with 26 instances of from 3 to 6 months, while 32 desired credit for from 1 to 3 years. The security offered in 33 instances consisted of own paper and notes of the prospective borrowers, in 21 instances of real estate and plant and in 13 instances of mortgages. The reasons assigned by the banks for refusing credit included "bank policy" 42 times and "financial condition of borrower" 29 times.

Survey of Needle Trade by B. & I. Committee

About 75 per cent of the women's clothing produced in the United States is manufactured in New York City, there being some 5,500 establishments. Many concerns in this industry would like to obtain credit. It is obvious that many will be unable in future to obtain bank credit on the same very liberal basis as in the past and it has been suggested that the solution may be the organization of banking or credit companies which would specialize in this field.

The conditions which have brought about the present demoralization in this industry are not, however, a by-product of the depression, but result very largely from changes in the character of the business during the last five years. Since apparently all necessary goods are being produced and there is no inability to purchase the products of this industry, it would not appear that credit would solve any of the present problems except the problem of the individual borrower.

County Surveys by Bank Relations Department of the Federal reserve bank

In addition to inquiry, whenever opportunity offered, directly of

banking officers regarding credit needs of their respective communities, an intensive survey has been made in the following counties: In New York - Orange, Orleans, Chautauqua, Rockland, Sullivan and Nassau; in New Jersey - Hudson. The most noteworthy conclusions follow:

Orange County, N. Y. There have been only two bank closures in this county, but there have been several reorganizations and many of the banks have been under severe pressure resulting from bond depreciation. Reasonable demand for credit for business purposes is apparently being met.

Orleans County

This county is located in the fruit belt on Lake Ontario and has suffered from the fact that a larger proportion of its banks have closed than in any other county in this district. Conditions in this county differ greatly from those elsewhere. The report indicates that credit is very badly needed, but that a great deal of the demand could not be met safely even if funds were available. There is a clear indication that this county is suffering from too generous granting of credit in years past. While the remaining banks have not been able to provide all accommodations needed this year, credit has been obtained in a number of cases from Buffalo and other towns outside of the county. One of the banks (State Exchange Bank of Holley) has organized an agricultural credit corporation for the purpose of making loans to farmers. This corporation will be able to borrow 80% of the face value of its good notes from the Federal Intermediate Credit Bank and in this way additional funds can be provided for agricultural purposes.

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Chautauqua County

This county includes two industrial centers -

Jamestown, a city of 46,000, is an important center of the furniture industry, both wood and steel. This industry has had hard going for several years and Jamestown has been severely affected.

Dunkirk with a population of about 18,000 has been even more severely affected, so much so that the population of the city has decreased about 4,000 in the last three years. The balance of the county, which is large, is given over to agriculture, mainly fruit growing and dairying.

Rockland County

This county includes Nyack, Haverstraw and Suffern, most of the county being within commuting distance of New York City. This county has been perhaps less affected by existing conditions than any of the others surveyed. There appear to be no indications that credit required for business purposes is not available.

Sullivan County

This county, which is mountainous, has some farming, but its most important source of income is the summer hotel business, catering largely to the Jewish population of New York City, there being a very large number of summer hotels and boarding houses scattered throughout the county. The report indicates that this past season's business, while cut substantially, has on the whole been fairly satisfactory. There has apparently been a tendency on the part of the banks to watch their hotel credits more closely than usual, but there is no indication that legitimate demands have not been met.

Nassau County

A portion only of this county has been covered - two towns, Hempstead and Mineola. This county, located on Long Island immediately outside the city limits, is within commuting distance and represents mainly suburban home communities.

Hudson County, N. J.

Includes Jersey City, Hoboken and other communities west of the Hudson River. Most of the banks have been under some pressure as a result of the closing of several banks in this county in the summer of 1931. Some banks have continued to be under pressure. There is no indication that loans are not being granted for business purposes wherever there is reasonable justification.

DIRECT LOAN APPLICATIONS

Considerable information relative to the need for credit in industry is also provided by the experience of our Loan Department in dealing with the direct applications of individuals, partnerships and corporations. During the two months, August and September, we received both formal and informal, 1,088 applications. Of this number 761 were for ineligible purposes. These classified as follows:

Loans based upon real estate - - - - -	365
For business purposes but ineligible -	186
For personal needs - - - - -	58
For agricultural use - - - - -	5
To take up bonded indebtedness - - - -	5

The remaining 327 applications appeared to be technically eligible and included only 7 agricultural loans, all of the remainder being for various commercial purposes.

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Of the 327 which were considered eligible a preliminary investigation indicated there were but 127 deserving of serious consideration and investigation. These have been disposed of as follows:

Loans made - - - - -	11
Loans declined - - - - -	96
Still under investigation - - - - -	20

Of the 127 loans given serious consideration 5 were in amounts of \$100,000 or more.

The average amount applied for by all of the rest was less than \$12,000.

The total commitment with respect to the 11 loans already granted is \$982,505.

The aggregate amount applied for by the entire 127 applicants who were given serious consideration was \$4,950,000.

The loans granted have been made possible only after going into a vast amount of detail and work in an effort to develop information which would indicate the possibility of a safe loan. In a number of cases other creditors have subordinated their claims. In some cases we have gone in partnership with other banks already in the picture, which has necessitated the preparation of agreements, etc. Probably few of the loans granted represent business which any well run commercial bank would seek to take on. Our collateral ranges all the way from wheat and flour to assigned accounts receivable, and includes real estate mortgages and pearl essence used in the manufacture of artificial pearls.

It has been the policy to give every application which appeared to be deserving of consideration a careful investigation and, if all necessary conditions were met, to endeavor to find some way of making the

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loan if it appeared that a loan could be safely made. This necessitated a great deal of credit investigation work, as it was considered necessary to ascertain the reasons why other banks were unwilling to grant the credit. As the figures indicate, in a majority of cases the conclusion has been reached that the other banks were justified in declining credit. In a very few cases as a result of our inquiries banks have reconsidered and have decided to go along with the line. In most cases, however, they have been unwilling to reconsider.

Probably 80% of the applications considered have come from New York City. In a considerable proportion of the cases reviewed it has been found that the applicant has been a steady borrower for years and in not a few cases their banks have been over-generous with them in the past. In most instances, however, the position of the applicant has deteriorated within the last two years, liquid position having been used up and the capital of the business greatly reduced. In not a few cases we have found that the financial statements presented to us did not reflect true conditions.

In quite a number of instances applications have been declined for the reason that credit was needed for a long period, one to two years or permanently. While it has not been the practice to require evidence of ability to pay off at the maturity of the note, it has not been felt loans could be granted if the picture clearly indicated there was no possibility of repayment within any reasonable time. While these prospective long term borrowers have not been investigated from a credit standpoint, a superficial examination of such applications would indicate that not more than six cases have come to our attention where it would

appear a loan could be properly made for a long term. It is probable that more careful scrutiny would reduce this number.

The experience of this bank in handling direct applications seems quite illuminating, especially when it is considered that the ability of the bank to grant such loans had wide publicity and also that our circulars have been broadcast to all inquirers and to all who returned questionnaires indicating a need for credit to the National Industrial Conference Board and the Banking and Industrial Committee. The very limited number of loans which it has been possible to work out would appear to demonstrate that there are relatively few borrowers who may be said to be entitled to credit and who are not receiving it.

On the other hand, there is undoubtedly a great demand for credit for business purposes by concerns which for various reasons have been unable to obtain it. Most of these applicants need capital and not credit. In not a few cases they are struggling with losing propositions with a very doubtful future, and it is probable they would not be helped by either new capital or credit.

#### GENERAL CONCLUSIONS

A review of all of the information available indicates that the problem can be more clearly considered by breaking down the various credit demands into classes. There are clearly five types of demand as follows:

- a. The demand for credit for business purposes by sound borrowers of the type who would ordinarily be adequately taken care of by commercial banks.
- b. The demand for credit for business and semi-business purposes on the part of borrowers whose condition is not prime but is

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b. (Cont'd)

in many cases very poor. This is a class of demand which has in the past been largely met by banks, but which for the most part never should have been supplied by banks. It is largely a demand either for fixed capital or long term loans for unseasoned ventures, or for speculative undertakings.

- c. The demand for credit on the part of individuals who are home owners or have other equities. This is a type of demand which is ordinarily very limited and is generally taken care of through loan companies, building and loans associations, and to some extent by banks and personal loans. The present economic condition has greatly enlarged the demand for credit in this field.
- d. The demand for personal loans on the part of those who have very thin equities if any at all and where the making of loans would be extremely hazardous.
- e. The demand for mortgage money.

These surveys indicate that credit falling in the first class, that is for business purposes with sound borrowers, is being reasonably well provided. A few instances only have been developed where there would appear to be borrowers falling in this class who are not being taken care of. Banks and others interviewed have with very few exceptions stated that all legitimate demands for credit for business purposes are being met. Many banks have indicated their willingness to grant loans upon paper which would be eligible for rediscount at the Federal Reserve bank even though they are already borrowing.

The survey also clearly indicates, as might be expected, a very large demand for credit on the part of prospective borrowers falling in the second class mentioned above. The line of distinction between these first two classes is not always a clear one and individual judgment will in many cases differ as to the class in which a prospective borrower belongs. This survey has had mainly to do with conditions outside of New York City. With very few exceptions the banks outside of New York City are relatively more

lenient in the granting of credit than those in the city, and so far as conditions outside of the city are concerned, there are probably more concerns not entitled to credit and getting it than there are entitled to it and not getting it. A review of the paper being offered this bank for rediscount by member banks in this district will clearly demonstrate that most banks are taking all the risk they are justified in taking. It is of course very probable that a considerable number of prospective borrowers who might develop into good credit risks are not receiving credit because of differences of opinion as to the merits of the case. Our experience in handling direct loans, would not indicate that taken as a whole any great injustices were being done. There is, however, clearly a large demand for credit by this class of borrower, and if there were lenders willing to operate in this field, undoubtedly much business could be done.

The demand for credit in third class, that is individuals who are home owners or have other equities, is ordinarily not a large demand and is generally taken care of in a variety of ways without difficulty. Under existing conditions, however, this type of demand has tremendously increased and these surveys indicate an almost universal demand in every community for credit by this type of borrower. Probably the principal use of the proceeds of such loans, if they were made, would be the payment of taxes, after which would come interest on mortgages, consolidation of small debts, etc. This is obviously a difficult field for which to supply credit. Loans would be for small amounts, the expense of making the loan and of later collecting it would be very large, careful administration and supervision would be necessary, and it is so closely identified

(B-848)

with the demand from the fourth class as to make difficult the selection of proper risks. The survey indicates that in some cases banks are making a few loans of this type, but for the most part banks will not make these loans as they are of necessity slow and the cost is greater than the revenue. This is a field entirely outside the scope of Federal Reserve credit, but one to which the Banking and Industrial Committee might well give careful consideration.

The demand of the fourth class is of course not a demand which could be handled in any case on a business basis and apparently can only be dealt with by welfare and relief organizations.

These surveys have indicated a very large demand in almost every community for mortgagemoney. In a few communities this demand appears to be fairly well provided for, but in most communities mortgagemoney is apparently almost non-existent. The survey would indicate that in most communities a substantial amount of money could be put out on mortgage and, in the opinion of those interviewed, on a sound basis. It is obvious, however, that many prospective borrowers upon mortgages desire to increase the amount of existing mortgages, or to obtain mortgages in an amount greater than some other lender is willing to grant. While the Home Loan Banks are not yet operating, it is doubtful just how much assistance they will render in this respect. No loan can be made by these banks which would amount to more than 40% of the appraised value of the property. They will no doubt be able to render some assistance in the case of borrowers who own their property free and clear and who desire only small loans. There will probably be some indirect advantage from the operation of these banks since loaning agencies which are members of the banks will perhaps not feel it is so necessary to maintain a liquid position once they know there is an organi-

(B-848)

zation from which they can borrow on the security of their mortgages held, but since most financial institutions do not like to borrow, the benefits are somewhat problematical. There would appear to be sufficient machinery already in existence to provide all legitimate demands for this type of credit. The fact is the decline in values of properties has raised a serious problem for many owners of mortgaged property, and there is no sound method whereby the problem of the mortgagor can be met through the granting of more credit.

SUMMARY OF CREDIT SURVEY CONDUCTED BY FEDERAL RESERVE BANK OF  
PHILADELPHIA

Of 1,682 firms replying to a question as to their experience in borrowing funds for working capital requirements, 485 had no need to borrow, 873 obtained needed funds without difficulty, and 324, or 27 per cent, either obtained the needed funds with difficulty or were refused loans. The percentage of prospective borrowers falling in the group that experienced difficulty in obtaining, or were unable to obtain, loans varied, by class of business as follows: Services (Hotels, restaurants, laundries, garages, etc.) 45 per cent; Building and Contracting, 39 per cent; Trade, wholesale and retail, 29 per cent; Manufacturing, 26 per cent; Coal, 11 per cent. The percentage of prospective borrowers experiencing difficulty in obtaining loans varied inversely with their net worth, only 9 per cent of concerns having a net worth in excess of \$750,000 falling in this group, as against 28 per cent in the case of concerns having a net worth of from \$50,000 to \$100,000, and 42 per cent in the case of those having a net worth of less than \$50,000. The percentage of prospective borrowers experiencing difficulty in obtaining loans showed a similar variation as regards financial

rating as might be expected. Thus only 16 per cent of prospective borrowers with a "high" rating experienced difficulty, as against 39 per cent for those with a "good" rating, 49 per cent for those with a "fair" rating, and 83 per cent for those with a "limited" rating, and 58 per cent for those not rated.

Of 1,118 replies to a question as to their readiness to buy additional stocks of raw materials or supplies in advance of present needs if sufficient credit, not now available, could be had on suitable terms and conditions, only 227, or 20 per cent, were affirmative. The distribution of the affirmative replies by class of business follows: Services, 53 per cent of replies received; Trade, 23 per cent; Manufacturing, 19 per cent; Building and contracting 16 per cent, Coal 13 per cent. Affirmative replies ranged from 6 per cent of replies received from firms having a net worth in excess of \$750,000 to 34 per cent in the case of firms having a net worth of less than \$50,000.

In response to a question as to whether they have obsolete machinery and equipment which would be replaced under normal business conditions, there were 329 affirmative replies in a total of 1,169, or 28 per cent. Affirmative answers ranged from 16 per cent of total replies from firms having a net worth in excess of \$750,000 to 36 per cent in the case of those having a net worth of less than \$50,000, and from 24 per cent of firms with a "high" credit rating to 67 per cent in the case of those with a "limited" rating.

In response to a question as to whether replacements of obsolete machinery and equipment, additions, or other improvements have been delayed because of inability to obtain capital or credit, there were 133

affirmative replies in a total of 983, or 14 per cent. Affirmative answers ranged from 3 per cent of total replies from firms having a net worth in excess of \$750,000 to 25 per cent in the case of those having a net worth of less than \$50,000, and from 8 per cent of firms with a "high" credit rating to 42 per cent in the case of those with a "fair" rating. Only 4 firms with a "limited" rating replied to this question and accordingly the 25 per cent reported by this group is inconclusive.

Letters were sent to 286 of the 324 concerns reporting difficulty in borrowing from banks. Of 83 concerns replying to October 31, 42 declined to permit their replies to be released to the Committee on Commercial Credit for various reasons, among which was "credit difficulty adjusted" by 17, "do not have proper security" by 4, and "hold the matter in abeyance, pending readjustments and business improvement" by 7.

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APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED  
BY THE FEDERAL RESERVE BANKS - TO NOVEMBER 5, 1932

	Number		Reasons for not granting loans applied for					Amount of loans declined#
	Week ending Nov. 5	Total to Nov. 5	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	
Boston	1	11	--	--	3	7	1	\$114,240
New York	1	123	5	3	18	97	--	3,241,050
Philadelphia	2	47	--	1	28	18	--	907,600
Cleveland	3	10	--	--	4	6	--	26,000
Richmond	--	45	--	--	33	12	--	869,824
Atlanta	1	109	1	--	57	51	--	1,841,065
Chicago	2	104	--	--	56	48	--	1,320,400
St. Louis	--	31	1	--	7	23	--	268,300
Minneapolis	1	19	1	--	10	8	--	285,500
Kansas City	2	21	1	--	11	6	3	76,647
Dallas	--	9	--	--	1	8	--	68,200
San Francisco	--	10	1	--	--	9	--	168,250
Total	13	539	10	4	228	293	4	9,187,136

#Approximate; amounts sometimes not stated.

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CONFIDENTIAL

BANKING AND CREDIT SITUATION

Growth of excess reserves since last summer

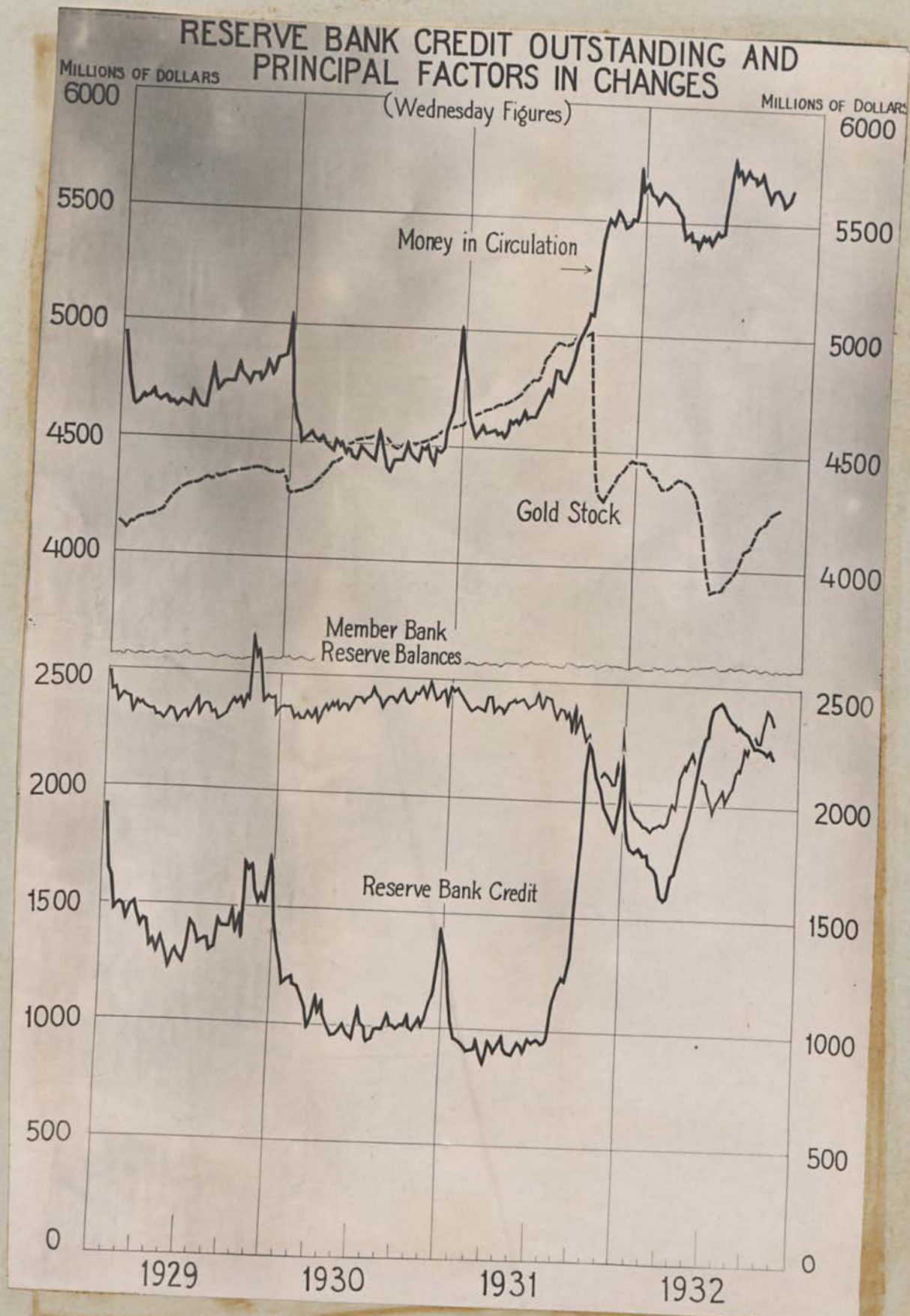
Considerable improvement in the financial situation since the middle of July is clearly indicated. The figure which epitomizes these developments and presents the background for a discussion of credit conditions and credit policies at the present time is the figure of excess reserves of member banks, which on November 9 stood at \$450,000,000, and showed an increase of \$200,000,000 since the middle of July.

That date marks a definite turn in financial conditions. Since that time the monetary gold stock of the country has increased by \$320,000,000, both through imports and through releases from earmark. During the same period money in circulation decreased by \$85,000,000 at a time when seasonally it would have been expected to increase by about \$160,000,000. Broadly speaking, this amount of about \$250,000,000 represents a return from hoarding. In addition, about \$150,000,000 of national bank notes have been issued under the provisions of the law which increased the classes of bonds having the circulation privilege. All of these developments placed additional reserve funds at the disposal of member banks. About \$230,000,000 of these funds was used to reduce further the indebtedness of member banks to the reserve banks, about \$100,000,000 to meet an increase in reserve requirements resulting from a growth of member bank deposits, and about \$200,000,000 remained as additional excess reserves.

The course of gold movements, money in circulation, member bank balances, and reserve bank credit for a series of years is shown on the following chart.

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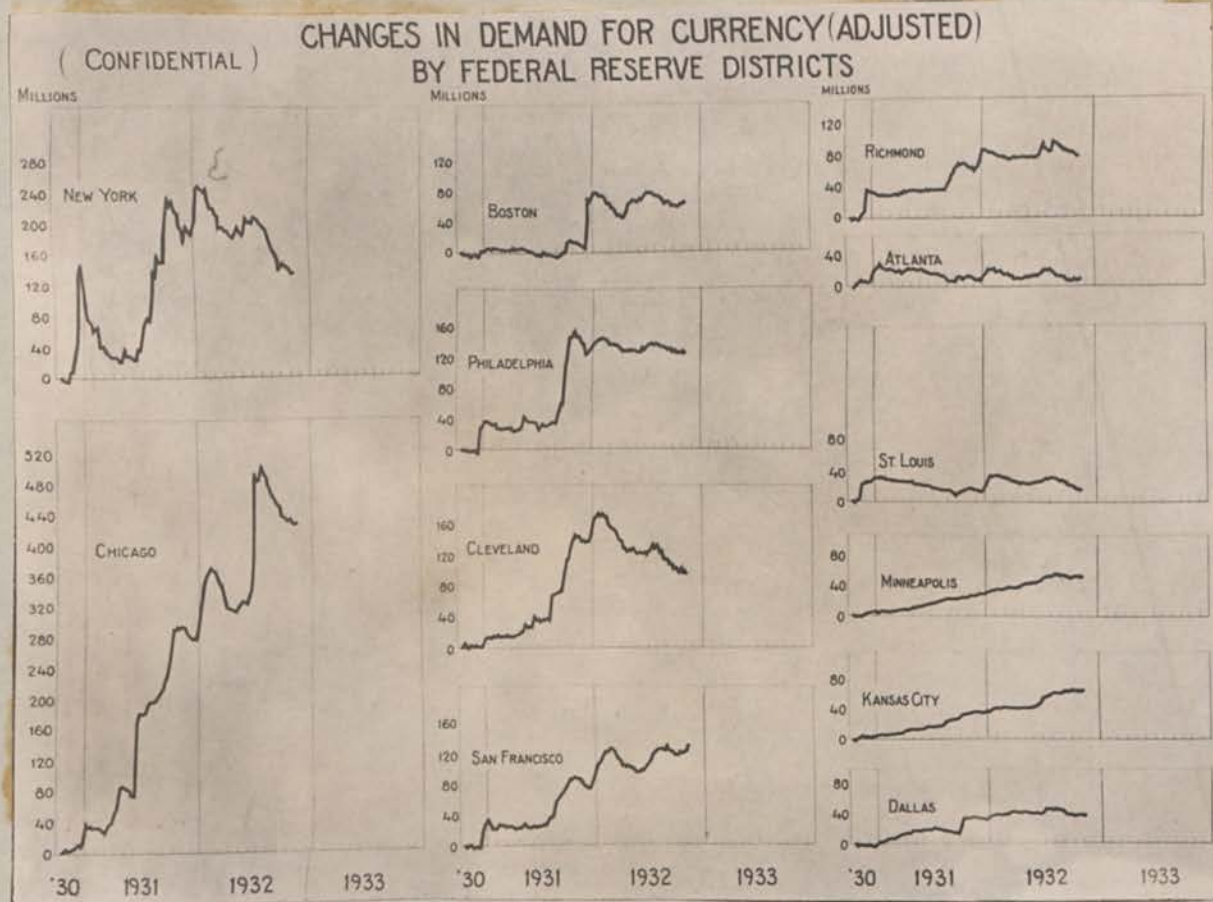
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Decline in hoarding

Hoarding was at its maximum in mid-July. Since that time a definite decrease in bank suspensions throughout the country has been reflected in release of currency from hoards both by the public and the banks. Up to the first of October the return flow was particularly rapid, amounting to about \$250,000,000. Since that time there has been comparatively little change.

The charts show estimates of demand for currency in excess of usual seasonal requirements in each Federal reserve district since October of 1930. These figures are not an accurate measure of hoarding, strictly speaking, since, on the one hand, they make no allowance for reduced use of cash for business purposes during the depression, nor, on the other hand, for larger demand as a result of the tax on checks and the imposition of service charges on small accounts, or for additions to circulation in localities where there are no longer any banking facilities.

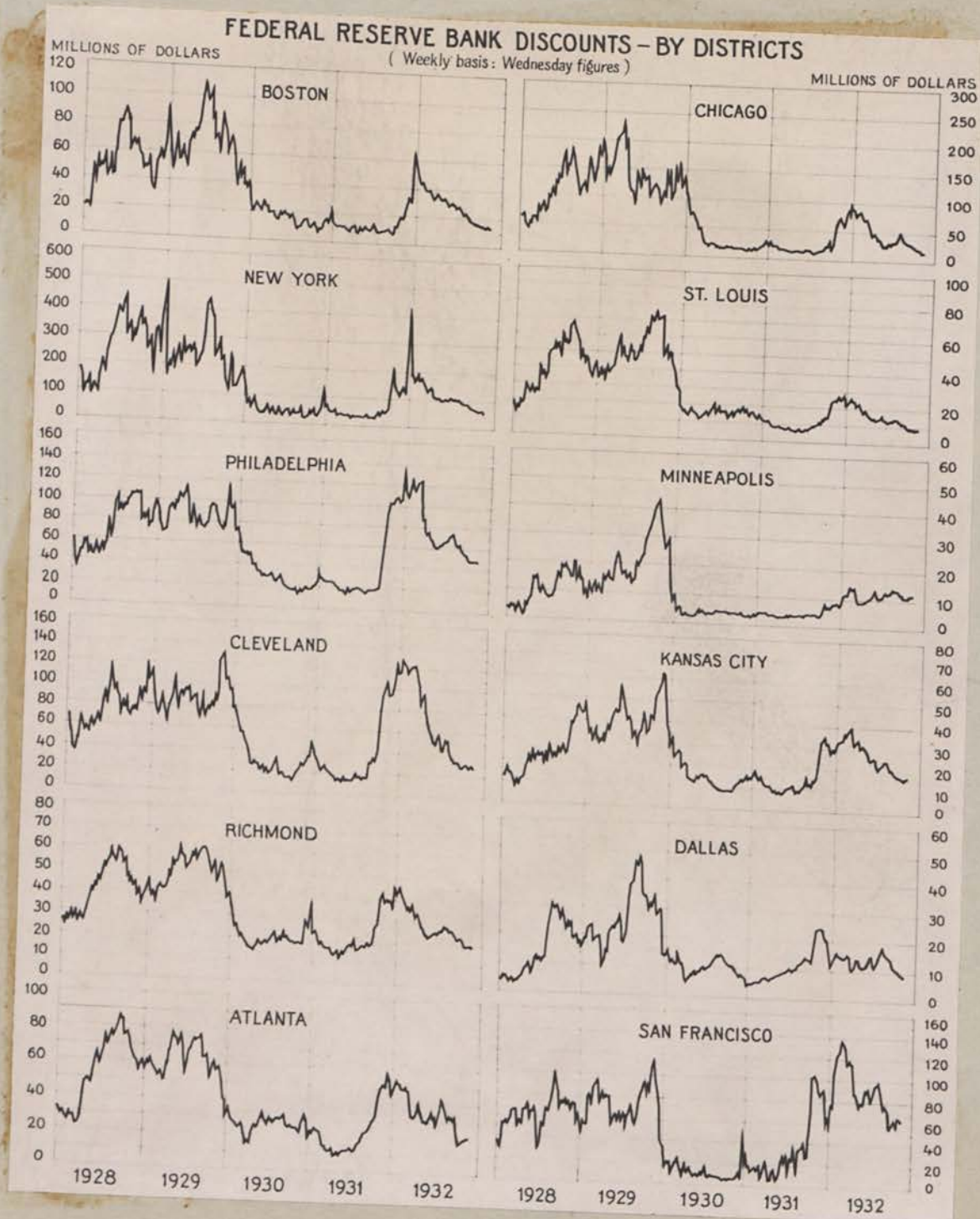


The charts indicate that, while the greater part of the nonseasonal increase in currency outstanding during the summer was in Chicago, almost all of the districts experienced some added demand. Since mid-July the decline, after allowance for seasonal factors, has been largest in Chicago and New York--where the volume of hoarded currency was largest. All districts have had some return of currency, except San Francisco where recent banking difficulties have occasioned withdrawals, and certain agricultural districts--Minneapolis, Kansas City, and Dallas in particular--in which there has been little net change in circulation.

Decrease in member bank indebtedness

The decrease of member bank indebtedness since the middle of July has

brought the total for all member banks down to \$311,000,000, a figure not far above the level prevailing before the outward movement of gold began last autumn. The chart shows the course of discounts by Federal reserve districts—and brings out the fact that the decline has been general throughout the country.



A figure that has a bearing on the volume of member bank indebtedness is the extent of borrowing from the Reconstruction Finance Corporation, which at the end of September, the latest available date, amounted for member banks to \$245,000,000. Indebtedness to the corporation, however, differs from indebtedness to the reserve banks in two respects. First, it does not represent the same degree of pressure on the member bank, even though the rate paid is higher; and, secondly, taking the banks in the aggregate, debt to the corporation can be paid off by a transfer of deposits and does not require reserve funds, as does a repayment to the reserve banks.

#### Prospects of demands to the end of the year

On the basis of existing information, it would seem likely that between now and Christmas there may be a seasonal demand for currency for holiday purposes of about \$250,000,000, compared with \$300,000,000 in ordinary years. To what extent this amount is likely to be met by further return flow from hoarding, it is impossible to estimate. During the past month there has been practically no change in the amount of hoarded money.

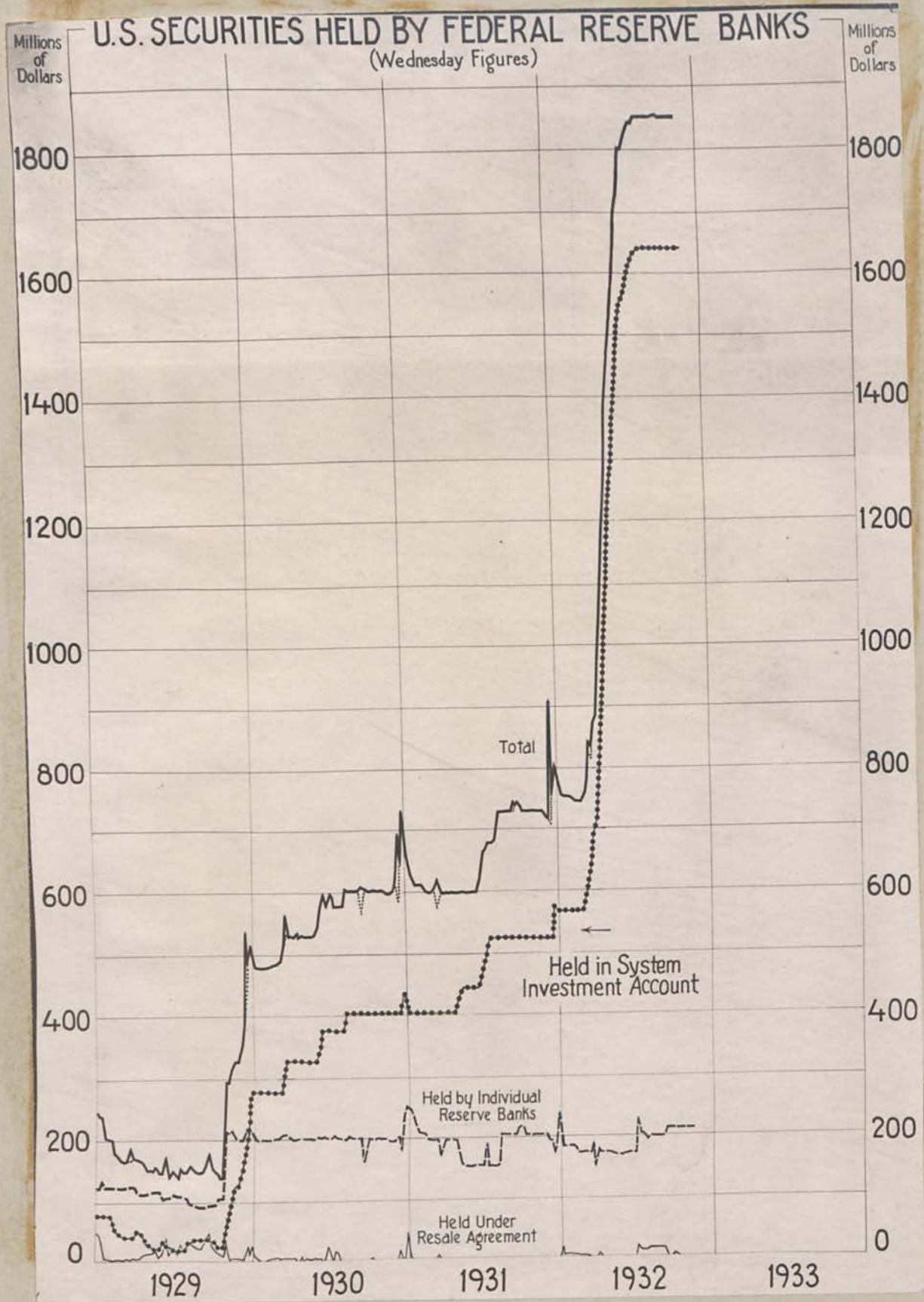
It is also impossible to estimate how much longer gold imports shall continue at their recent volume. The increase of \$350,000,000 in the gold stock of the country, which has taken place since June, is larger than can be accounted for by ordinary remittances due this country on trade balance or ordinary invisible items in the balance of payments, and undoubtedly reflects in some part extraordinary movements such as capital investments and the fact that minimum foreign balances were reduced below working requirements during the outflow of gold in the first half of the year. If the recent large rate of gold inflow should continue for the immediate future, however, and amount to between \$50,000,000 and \$100,000,000 between now and the end of the year,

a considerable part of the holiday demand for currency would be met by this movement, as well as by additional issues of national bank notes. The drain on member bank reserve balances in this case would not be large, probably not in excess of \$100,000,000, which, in their present position, they would be able to meet without creating any tightness in credit conditions.

After the first of the year, when the seasonal return flow of currency begins, the volume of member bank excess reserves is likely to increase at a rapid rate.

#### Open-market operations since 1929

Reserve bank holdings of United States Government securities have been increasing since the autumn of 1929, when the speculative boom came to an end. The chart shows United States security holdings of the Federal reserve banks from 1929 to date, distinguishing between securities held by the individual reserve banks and those held in the system investment account. Holdings of



the individual reserve banks, after an increase of \$100,000,000 during the stock market panic in 1929, have remained relatively constant, while the system's holdings increased by \$1,700,000,000. This increase continued until August of this year; since that time the investment account has been at a constant level.

The table below shows changes in the important factors in the credit situation between the end of September, 1929 and the middle of July, 1932, and since that time. It brings out the fact that during the period of 33 months prior to July 20 of this year the reserve banks had bought \$1,684,000,000 of United States Government securities. The funds released by these purchases were

Banking Developments, 1929-1932

(In millions of dollars)

Changes in--	Sept. 25, 1929 to July 20, 1932	July 20, 1932 to Nov. 9, 1932
Reserve bank holdings of United States Government securities.....	+1,684	+15
Discounts for member banks.....	-406	-227
Gold stock.....	-423	+318
Money in circulation.....	+991	-84
Reserve balances.....	-328	+306

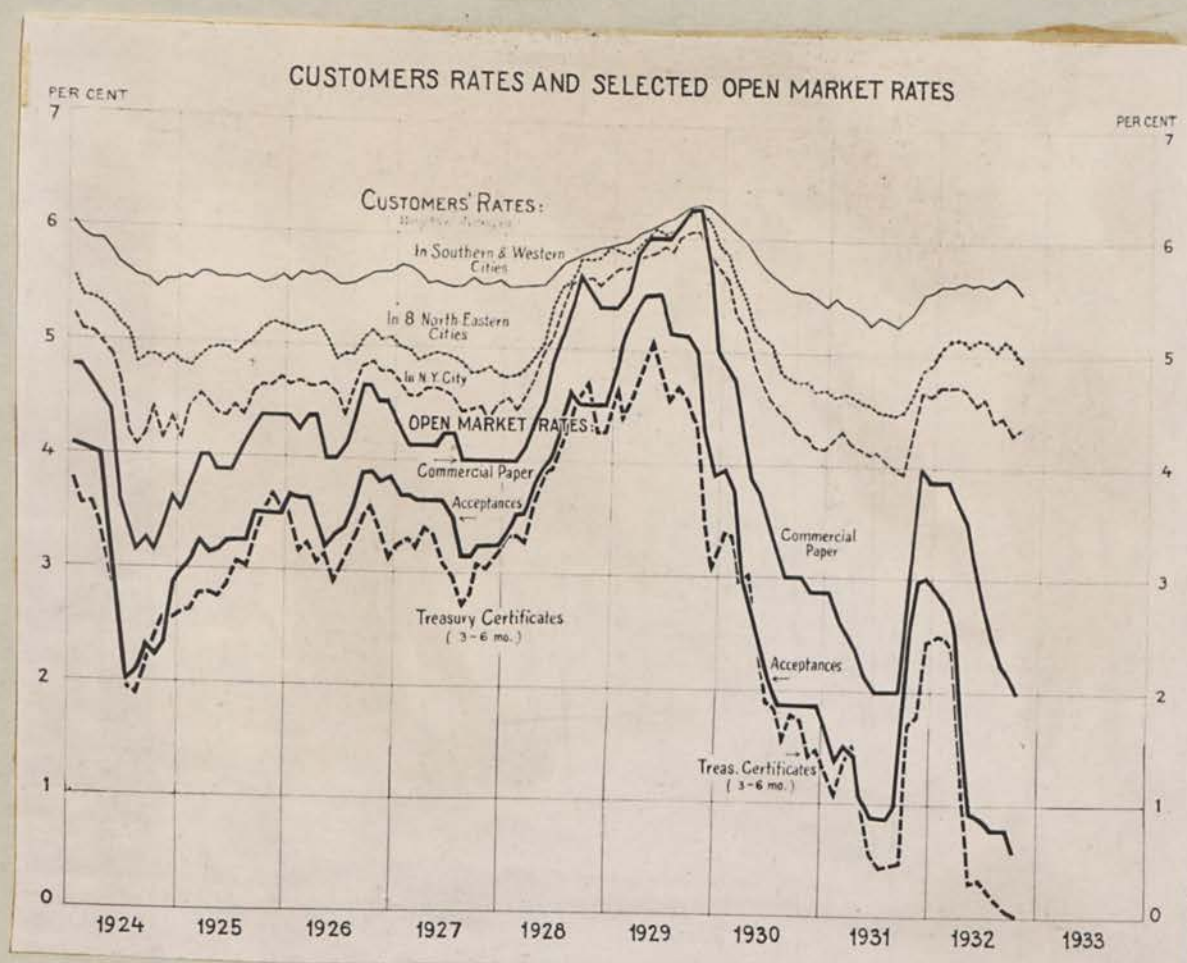
largely absorbed, however, by increases of almost a billion dollars in money in circulation and by over four hundred millions of gold exports. Nevertheless, member banks, as the result of the system's security purchases and a decrease in their reserve requirements, reflecting a decline in their deposit liabilities, were able to reduce their discounts by over \$400,000,000 and to accumulate by mid-July of this year about \$250,000,000 of excess reserves. During this long period, therefore, open-market purchases by the reserve banks enabled the member banks to meet an external drain on their gold reserves, an internal drain of currency for hoarding, and at the same time to reduce their

indebtedness, and to increase their reserves.

Since the middle of July Federal reserve bank holdings of United States Government securities have continued at a practically constant level, but other factors, already mentioned, have been adding to members' reserves, with the consequence that member bank indebtedness has declined further and their excess reserves have advanced to a level of \$450,000,000.

### Money rates

Increased ease in the credit situation, as indicated both by the low volume of member bank discounts and by the increase in their excess reserves, has been reflected in easier money rates in the short-term open money market, the course of which for a period of years is shown on the chart. The rate on short-



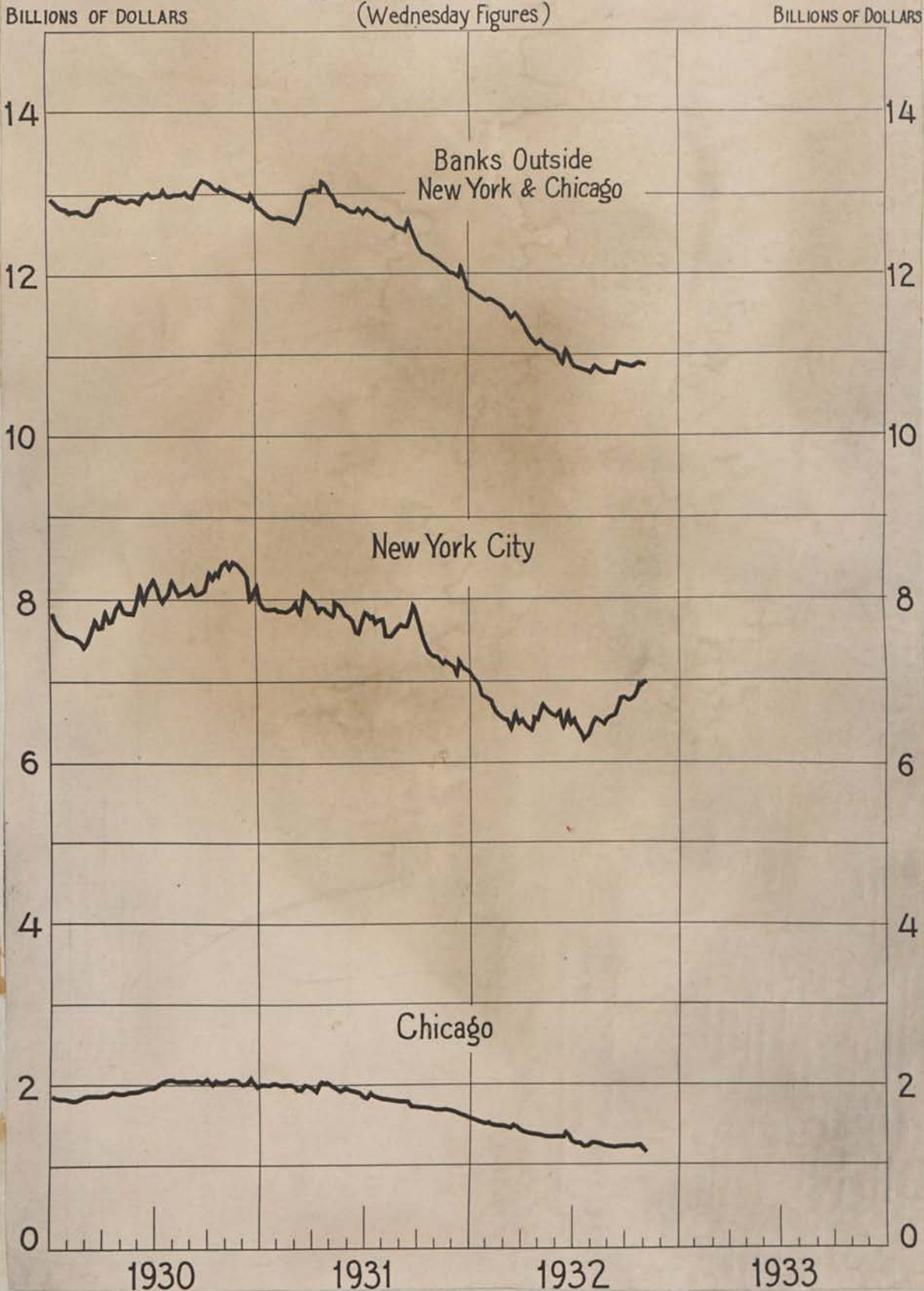
time Governments has become nominal and the rate on acceptances and open-market commercial paper has fallen to a low level. Rates to customers, however, outside of New York have shown relatively little decline since the beginning of the year. They advanced sharply at the time of the gold export movement last autumn and have remained at a fairly high level since that time. This relatively high level of money rates reflects the fact that the monetary ease has not been distributed throughout the country, nor to all classes of borrowers.

In the bond market prices are well above the low levels of the summer, but except for governmental issues there have been few flotations of new securities. So far a condition of great ease in the short-term markets has not worked its way into the long-term markets for industrial issues.

#### Member bank credit

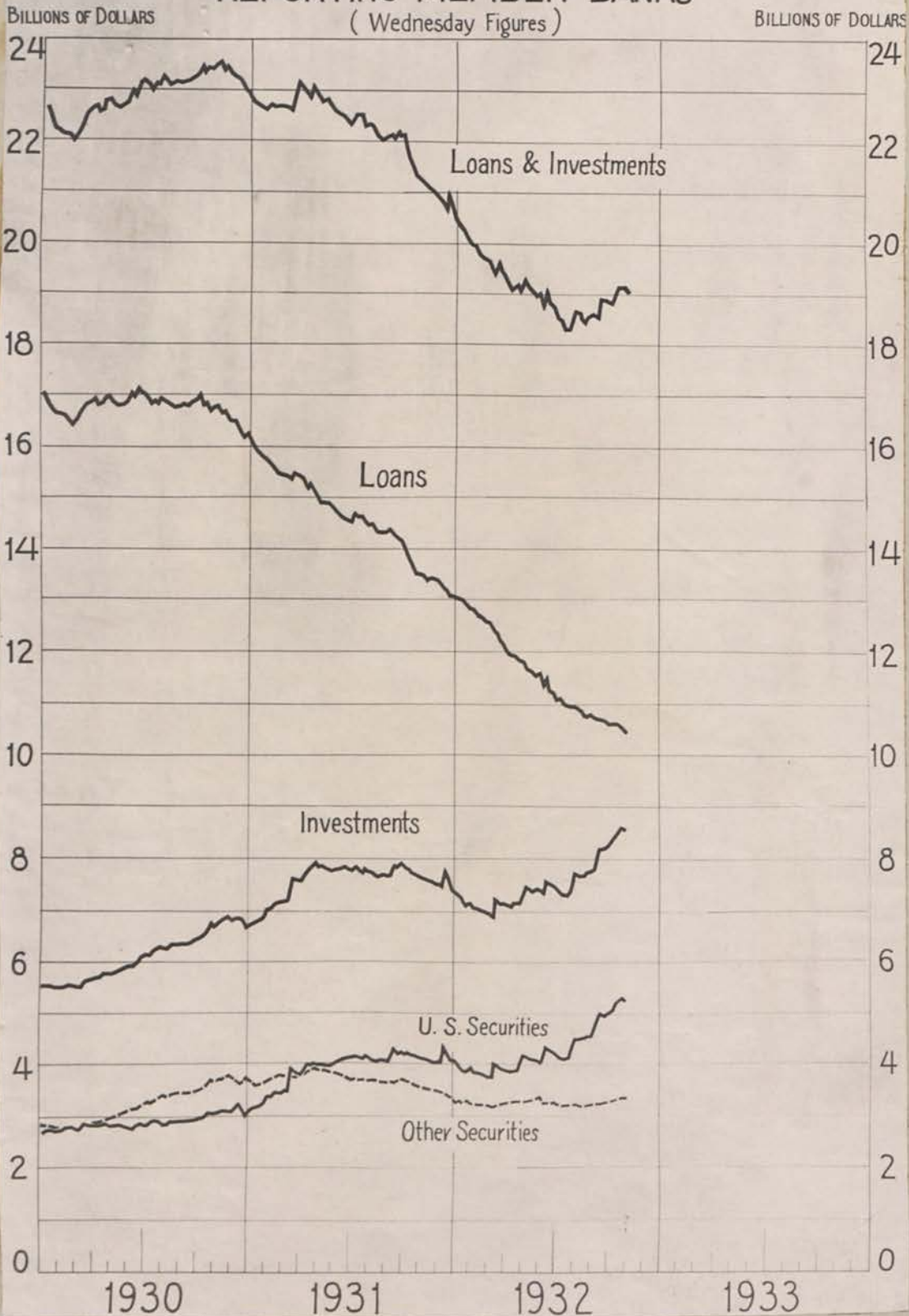
The fact that excess reserves and credit ease have not been distributed throughout the country and have not resulted in material expansion of member bank credit is reflected in the course of member bank loans and investments, which is shown in the two following charts. They indicate that the decline in total loans and investments, which was rapid from the early part of 1931 to

# REPORTING MEMBER BANKS TOTAL LOANS & INVESTMENTS



# REPORTING MEMBER BANKS

( Wednesday Figures )



the middle of 1932, came to a stop at that time. Since then the level has been fairly well maintained at banks outside of New York, while at the New York banks there has been in the last three months a considerable increase. This increase in New York practically comprises the entire increase for the system, and, as is shown by the second chart, consists almost entirely of an increase in United States Government securities. Other securities have remained at a fairly constant level, while loans have continued to decline, although not at as rapid a rate as earlier in the year.

For all reporting member banks, the increase in total loans and investments between July 20 and November 2 amounted to \$700,000,000. At the same time, the United States Government deposits of these banks increased by \$450,000,000, indicating that all but \$250,000,000 of the net increase in loans and investments, which took the form of increased holdings of United States Government securities, is still represented by deposit credits to the account of the United States Government on the books of these banks. The increase of \$725,000,000 in net demand deposits and \$175,000,000 in time deposits during the same period reflects in part the disbursement of Treasury funds, in part, a growth in inter-bank balances, and in part the deposit of currency and gold at the member banks.

Correspondent balances at reporting member banks have grown steadily since the end of February and are now back to the levels prevailing in August, 1931, before the withdrawals that accompanied and followed the credit crisis of last autumn. Interior banks as a whole, therefore, are again in possession of a large volume of liquid assets in the form of balances due from banks, although their total volume of liquid open-market assets, including also call loans, open-market commercial paper, and short-term securities, is still small as

compared with other years. The recent growth in correspondent balances reflects the disbursements of the Treasury and of the Reconstruction Finance Corporation which made available to interior banks reserve funds accruing to the central money markets from Federal reserve bank purchases of United States securities and from deposits of currency and gold. It also reflects in part recent issues of national bank notes. Interior banks have not used these funds to increase their customers' loans nor to any great extent to increase their open-market loans and investments, other than investments in United States <sup>Government</sup> securities, but have deposited them with correspondent banks in the money centers. This accounts for the concentration of the increase in excess reserves of the member banks at member banks in those centers. As is indicated by the chart, the accumulation of excess reserves has been chiefly in New York City, though



banks in Chicago also show some increase in excess reserves. Excess reserves outside of the two financial centers are approximately at the level that is usually maintained by country banks.

#### Business activity

The domestic business situation has shown some improvement since last summer. Output of manufacturing and mining industries has increased, as is indicated by a rise in the Board's seasonally adjusted index of industrial production from a low point of 58 in July to 66 in September. In October there appears to have been no further increase in activity, which was maintained at the September level. Traffic on the railroads increased more than seasonally this autumn, while changes in building activity have been largely of a seasonal character since early spring.

The improvement in manufacturing output and factory employment has been concentrated largely in the light industries, such as textiles, clothing, shoes, and some of the food products. Both production and employment in these industries increased substantially between the early summer and September. In the heavy industries, on the other hand, such as steel, machinery, automobiles, etc., there was no improvement in August and only slight improvement in September and October.

Farm income this fall is smaller than last season by a considerable amount, reflecting lower prices than a year ago for agricultural products, especially livestock and dairy products, and in addition smaller crops of cotton, winter wheat, and tobacco.

Wholesale prices in the United States, after declining steadily until the middle of June, advanced during the following three months by about 3 per cent.

Since early September, however, they have declined again to approximately the low level of June. The price of cotton, reacting after the end of August, remains above the lowest levels of the year, but cattle and hogs have recently been selling again at the low prices prevailing in early summer, and the price of wheat at Chicago, after recovery in July and August, declined in November to the lowest levels ever recorded. Prices of other commodities in general have maintained their advance since mid-summer rather better than agricultural products. This is true of certain textiles, some of the metals, particularly lead, tin, and zinc, and products which we import from abroad, such as silk, sugar, and rubber.

Recent business developments are described further in the Review of the Month in the forthcoming November issue of the Federal Reserve Bulletin.

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See Mn

CONFIDENTIAL

November 12, 1932

To: Governor Meyer

From: Mr. Goldenweiser

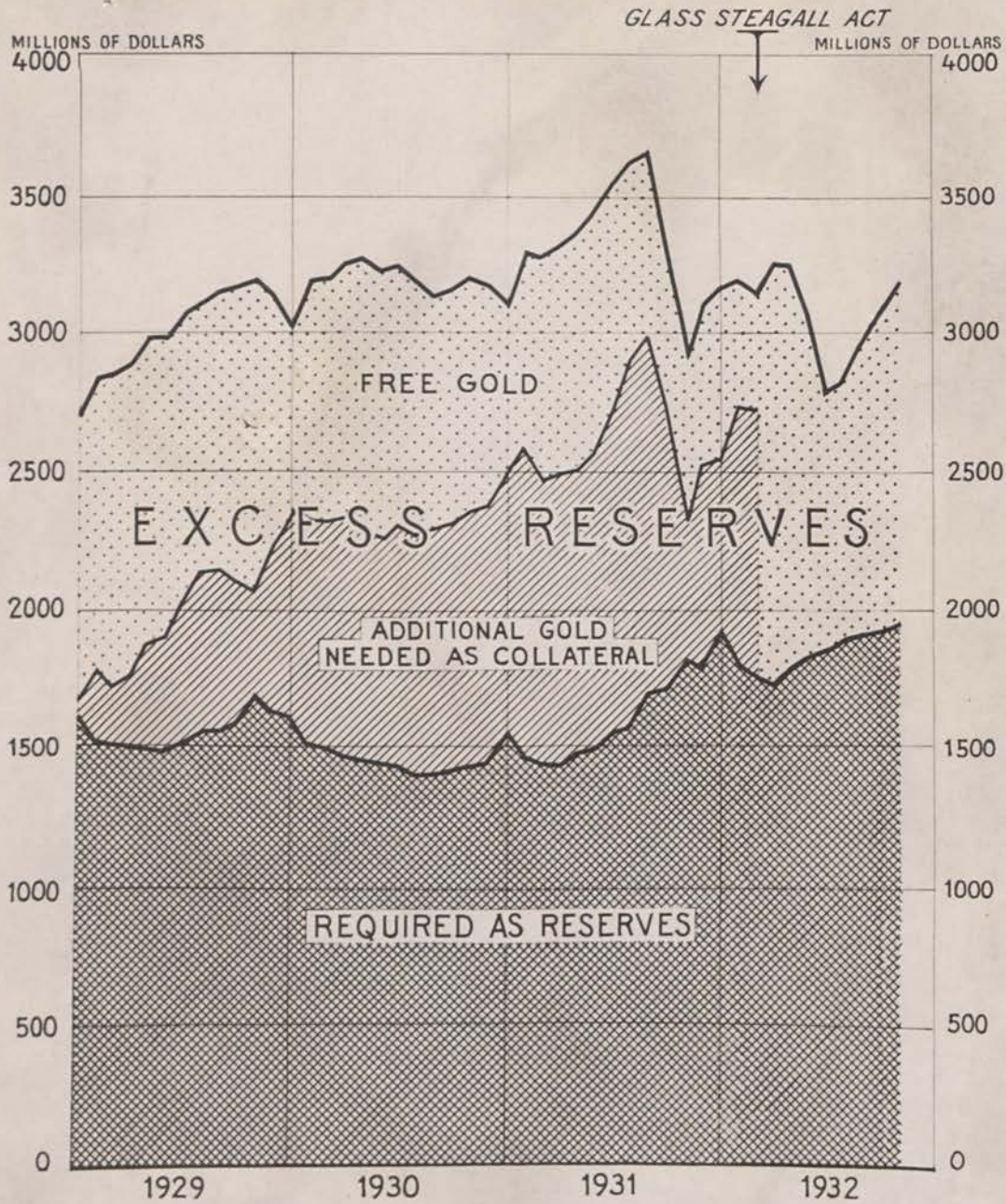
Subject: Section 3 of Glass-Steagall Act

Authority to pledge United States Government securities as collateral for Federal reserve notes under the terms of Section 3 of the Glass-Steagall Act expires on March 3, 1933. If the time limit is to be extended or removed, the system should make a recommendation to Congress soon after it convenes.

As a means of clarifying graphically the effects of the Glass-Steagall Act, a chart is presented which shows total reserves of the Federal reserve banks, the amount of gold required as reserves against deposits and against Federal reserve notes, and the excess reserves. It also shows the amount of these excess reserves that prior to the passage of the Glass-Steagall Act was immobilized as collateral against Federal reserve notes. By permitting the reserve banks to pledge Government securities as collateral against notes, the Glass-Steagall Act made the distinction between excess reserves and free gold meaningless.

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# RESERVES OF FEDERAL RESERVE BANKS



The entire area below the top line represents total reserves of the Federal reserve banks; the double-hatched area at the bottom--reserves required against Federal reserve notes and deposits; the single-hatched area over it--additional gold needed as collateral for Federal reserve notes; and the dotted area--free gold, that is, gold that was not

needed under the law either as reserves or as collateral. After the passage of the Glass-Steagall Act on February 27, 1933, it is authorized for one year the use of United States Government securities as an interest against Federal reserve notes, the distinction between excess reserves and free gold lost its significance.

Pledging of Government securities under the Glass-Steagall Act began on May 5 and on that date amounted to \$56,000,000. The maximum amount of \$682,000,000 was pledged on July 6 and since that time the amount has decreased by about \$250,000,000 to \$425,000,000. This decrease has been the result of the same factors that have increased the excess reserves of member banks, namely, the inflow of gold, the decrease in currency, and the issue of national bank notes. It is not impossible that, if the present movement in these items continues and becomes accelerated after the turn of the year, the necessity for pledging Government securities may disappear by the time the authority to do so expires. This is not likely, however. In any case, it is not desirable for the Federal reserve system to be deprived of the flexibility in carrying out its credit policies, which is conferred by this authority.

Q39

## Office Correspondence

FEDERAL RESERVE  
BOARDDate November 12, 1932To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Smead

2-8405

In compliance with your request for a statement of the factors responsible for the increase of member bank reserve balances during the period from 1922 in 1929, we have prepared the attached table covering the three periods during this time in which member bank reserve balances increased substantially, i.e., from February 1922 to January 1923, from February 1924 to January 1925 and from February 1927 to January 1928.

You will note from the attached table that from February 1922 to January 1923 member bank reserve balances increased by \$229,000,000. The principal factors tending to increase reserve balances during this period were an increase of \$241,000,000 in monetary gold stock, of \$203,000,000 in Treasury currency, of \$130,000,000 in holdings of bankers acceptances, and of \$64,000,000 in holdings of United States Government securities. During this period the Treasury redeemed over \$100,000,000 of Pittman Act certificates and either redeemed or assumed a liability on approximately an equal amount of Federal reserve bank notes. Had it not been for this, United States Government securities would have gone up approximately \$164,000,000, instead of \$64,000,000, and the increase in Treasury currency would have been only about \$103,000,000. These factors of increase in reserve balances were offset in part by a rise of \$228,000,000 in money in circulation and a decline of \$222,000,000 in discounts for member banks.

In the period from February 1924 to January 1925 there was an increase of \$302,000,000 in member bank reserve balances. This resulted largely from a rise of \$166,000,000 in monetary gold stock and of \$329,000,000 in holdings of United

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Mr. Hamlin - #2

States Government securities, offset in part by a decline of \$247,000,000 in discounts for member banks.

From February 1927 to January 1928 member bank reserve balances increased by \$214,000,000, notwithstanding a decline of \$199,000,000 in monetary gold stock. The increase in reserve balances was accompanied by an increase of \$205,000,000 in holdings of United States Government securities, of \$72,000,000 in discounts of member banks, and of \$69,000,000 in holdings of acceptances, together with a decline of \$58,000,000 in money in circulation.

A chart showing, for the period 1922 to 1929, member bank reserve balances, money in circulation, monetary gold stock and total reserve bank credit, also bills discounted, bills bought in open market and United States Government security holdings of the reserve banks, is attached.

CHANGES IN AVERAGE DAILY FIGURES OF MEMBER BANK RESERVE  
BALANCES AND RELATED ITEMS

(In millions of dollars)

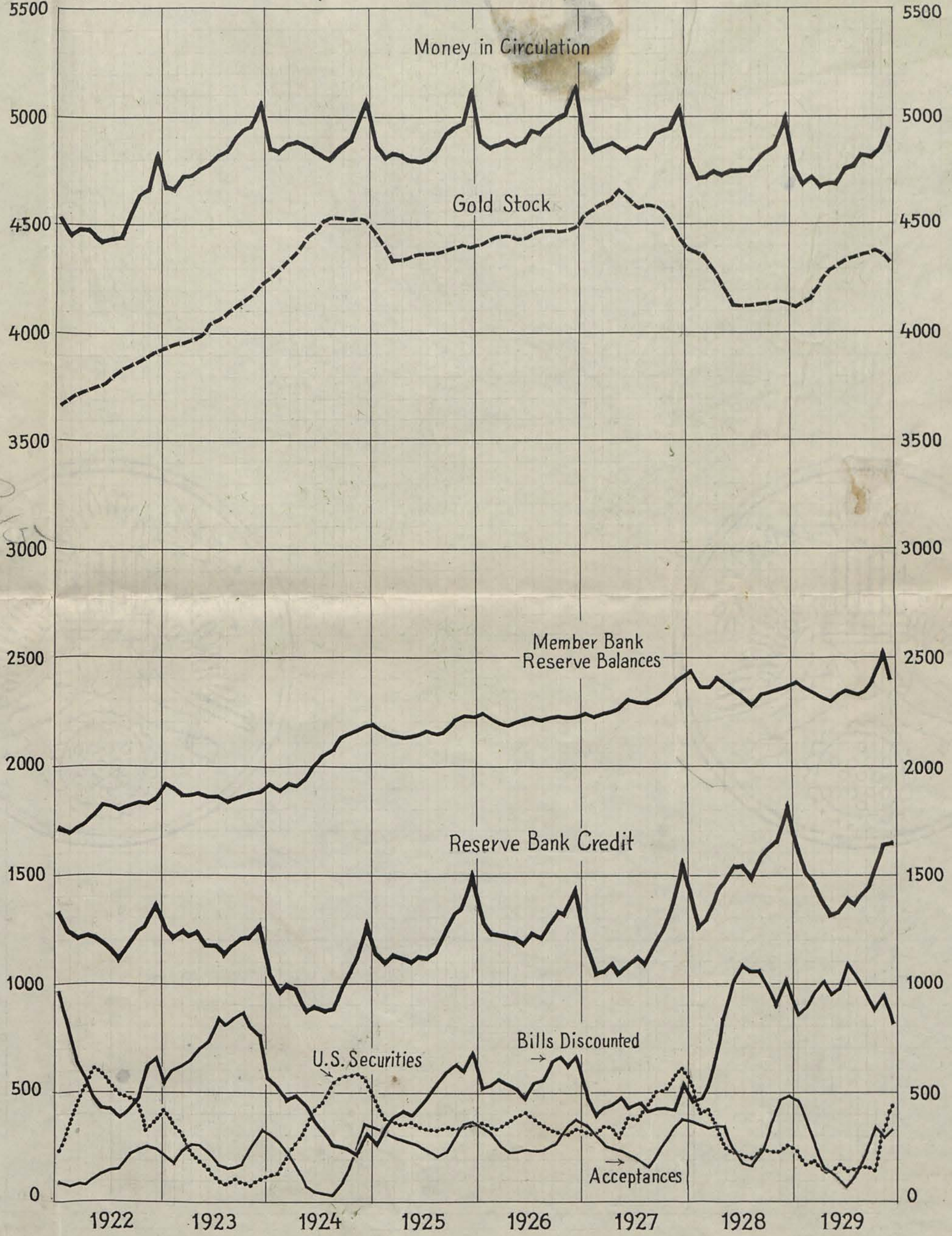
	Feb. 1922 to Jan. 1923	Feb. 1924 to Jan. 1925	Feb. 1927 to Jan. 1928
<u>Change in member bank reserve balances</u>	+ 229	+ 302	+ 214
<b>Factors tending to increase reserve balances:</b>			
Rise in gold stock	241	166	--
Decline in money in circulation	--	--	58
Rise in Treasury currency, adjusted	203*	6	21
Rise in discounts	--	--	72
Rise in acceptances	130	56	69
Rise in U. S. Government securities	64*	329	205
Rise in "other" reserve bank credit	44	32	--
	682	589	425
<b>Factors tending to reduce reserve balances:</b>			
Decline in gold stock	--	--	199
Rise in money in circulation	228	31	--
Rise in unexpended capital funds, nonmember deposits, etc.	3	9	11
Decline in discounts	222	247	--
Decline in "other" reserve bank credit	--	--	1
	453	287	211

\*Between February 1, 1922, and January 31, 1923, the Treasury redeemed over \$100,000,000 of Pittman Act certificates, and a substantially corresponding reduction took place in the Federal reserve banks' liabilities on outstanding Federal reserve bank notes.

DIVISION OF BANK OPERATIONS,  
NOVEMBER 12, 1932

# RESERVE BANK CREDIT OUTSTANDING AND FACTORS IN CHANGES

MILLIONS OF DOLLARS ( Monthly Averages of Daily Figures ) MILLIONS OF DOLLARS



FEDERAL RESERVE BOARD  
DIVISION OF  
RESEARCH and STATISTICS

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**Office Correspondence**

FEDERAL RESERVE  
BOARD

*See 120*  
Date November 18, 1932

To Mr. Hamlin

Subject: \_\_\_\_\_

*SH*  
From Mr. Smead

2-8495

In compliance with your request, we are giving below a statement showing changes in average daily figures of member bank reserve balances and related items between February 1922 and October 1929.

Change in member bank reserve balances	+ \$697,000,000
Factors tending to increase reserve balances;	
Rise in gold stock	677,000,000
Rise in Treasury currency, adjusted	264,000,000
Rise in discounts	116,000,000
Rise in acceptances	249,000,000
Rise in "other" reserve bank credit	<u>55,000,000</u>
	1,361,000,000
Factors tending to reduce reserve balances:	
Rise in money in circulation	359,000,000
Rise in unexpended capital funds, nonmember deposits, etc.	102,000,000
Decline in United States Government securities	<u>203,000,000</u>
	664,000,000

You will note from the above and from the chart accompanying our memorandum of November 12, that the increase in member bank reserve balances from February 1922 to October 1929 was substantially the same as the increase in monetary gold stock. You will also note that the increase in holdings of acceptances was largely offset by a decline in holdings of United States Government securities and that discounts for member banks increased during the period by \$116,000,000.

As pointed out in our memorandum of November 12, member bank reserve balances increased substantially in 1922, 1924 and 1927 and remained relatively stationary during the rest of the period. We also pointed out

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Mr. Hamlin - #2

in that memorandum that holdings of United States Government securities increased during all three of these periods and that our monetary gold stock increased in 1922 and 1924 but declined in 1927. When reviewing the whole period from 1922 to 1929, it is of course correct to say that the increase in member bank reserve balances corresponded roughly with an increase in monetary gold stock, but it is not safe to draw too definite conclusions from that fact without taking into consideration the causes which may have brought about the gold movements.

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*Mr. Hamilton* *Spec. No.*

(Letterhead of)

FEDERAL RESERVE BANK OF MINNEAPOLIS

November 23, 1932.

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

The last matter taken up by the Joint Conference of Governors and Chairmen on November 17th was the question of salaries for the coming year. It was voted that it was the sense of the joint conference that such salaries and wages should not be reduced at this time, the reasons for such conclusions to be furnished to the Federal Reserve Board. This with the understanding that the question of our own salaries was not to be included in this motion.

First, as to employees as distinguished from officers: We have a very competent and loyal force, always ready for overtime work, if necessary, and with probably the smallest turnover of any bank in the Twin Cities. It is difficult to make accurate comparisons, but I do not believe that man for man our force is being paid any more than commercial banks pay in all the larger commercial banks, many of which provide pensions and retirement funds which we do not. Between 1920 and 1929 we reduced our force of employees from nearly 600 to 297. Since 1929 we have let out no employees except one or two for cause, and when vacancies occurred due to death, marriage or resignation, the places have been filled by promotion, and if needed we have taken on messenger boys to fill the places of the various people promoted. As an illustration of the increase in competency in the force, during the month of October 1920 our Transit Department handled an average of 71,015 items per day with a force of 147 employees. In October, 1929, the same department handled an average of 74,108 items per day with 48 employees. With as competent a force as this the errors and mistakes which are always so annoying to our member banks are reduced to a minimum. Many of our employees are buying homes on monthly payments, and while clothing and provisions have come down in price, interest has not; payments on homes have not, life insurance has not and taxes have increased. In addition to this, the employees are being urged to give by increased gifts to Community Chests and other charities.

As to officers: I give herewith a list of officers' salaries paid by this bank.

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Federal Reserve Board--2

<u>Minneapolis:</u>	<u>Annual Salary</u>
Mitchell, J. R.	\$20,000
Mosher, C. L.	7,000
Bailey, F. M.	7,500
Geery, W. B.	25,000
Yaeger, Harry	13,000
Ziemer, H. I.	8,500
Dunlop, F. C.	8,000
Core, H. C.	5,500
Larson, A. R.	5,300
Rast, L. E.	5,000
Preston, O. R.	4,000
Peterson, W. E.	4,000

<u>Helena Branch:</u>	
Towle, R. E.	7,000
Hoerr, A. A.	4,000
Larson, C. J.	3,000

I find that in the three larger banks in the Twin Cities, comparable to this bank, the following salaries are being paid after a 10% cut a year ago:

1 at	45,000
1 at	38,250
1 at	32,400
2 at	31,500
1 at	27,000
4 at	22,500
2 at	19,800
1 at	16,200
1 at	13,500
1 at	12,600
5 at	10,800
1 at	9,900
1 at	9,450
5 at	9,000
38 from	8,550 to \$4,000.

In the last four years we lost one Deputy Governor getting a \$14,000 salary to a local trust company, who paid him \$18,000. Another Deputy Governor getting \$12,000 was offered \$15,000 and turned it down. Still another getting \$8500 was offered the same salary by a local bank and declined. The Managing Director of our Helena Branch has just recently been taken over by the Regional Agricultural Credit Corporation of Spokane at an advance of \$3,000 in salary.

Federal Reserve Board--3

From the above figures you will see that in the three local banks there are fourteen officers drawing more than our first Deputy Governor and 47 drawing more than our second Deputy. In the light of the above figures I do not feel that any reductions should be made in the salaries of the officers in question, and as to the Assistant Cashiers, the comparison is even stronger.

Our Directors at their meeting on November 19th appointed a Salary Committee consisting of our Executive Committee of three, with the addition of Mr. Homer P. Clark, Class C Director, who are to consider salaries and report recommendation to the Directors at their next meeting on December 12. This letter represents merely my own feelings in the matter and does not reflect in any way the judgment of our Salary Committee, which has not yet met.

Respectfully yours,

(Signed) W. B. GEERY

W. B. Geery  
Governor.

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See BH

FEDERAL RESERVE BANK  
OF NEW YORK

November 25, 1952.

Dear Mr. Hamlin:

In response to your note of November 22 I take pleasure in enclosing a copy of the notes taken by our Mr. Sanford of the annual meeting of the Harvard Economic Society. In your records it might perhaps be as well to indicate that these are very rough confidential notes.

Sincerely yours,

*W. Randolph Burgess*

Honorable Charles S. Hamlin,  
Federal Reserve Board,  
Washington, D. C.

WRB.H  
encl.

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OFFICE CORRESPONDENCE

DATE Nov. 14, 1932

TO Dr. Burgess

SUBJECT Notes of the Annual Meeting  
of the Harvard Economic Society,  
November 11 and 12, 1932.

FROM H.L. Sanford

*rough notes  
confidential*

Friday Evening, Nov. 11, Session

The Business Outlook - C.J. Bullock of the Harvard Economic Society.

Mr. Bullock presented a survey of the present depression in four phases:

- (1) From the Stock Market Break in the Fall of 1929 to the Second Quarter of 1930. This phase of the depression was characterized by the following developments:

Liquidation brought easy money first in the United States, and then abroad. The stabilization of the recession was attempted in the Hoover program, including easy money, public construction and private construction. The doctrine of wage rate maintenance was advanced, although total wage payments became lower, thereby reducing purchasing power. Control of certain commodity prices was attempted, as, for example, copper. In general an attempt was made to control the situation in order to prevent a real depression. The policy of no reduction in public expenditures and a free spending urge marked the first attempt on record to confine liquidation to the security markets. Confidence in the "soundness of the industrial situation" was the keynote of this period. A recovery in security markets, easy credit, and the movement of commodity prices early in 1930 indicated the resumption of a good volume of activity.

As spring wore on, it became evident that the credit of all borrowers had become impaired. Consequently, no foreign security issues were brought out, commodity prices failed to work out as anticipated, and the Federal Farm Board calculations got this agency in deep. The break in the price of copper at this time was the signal of the failure of price control. Confidence in attempts to control the business cycle waned, and the real depression set in. It is true that in this period the large German bond issue was "placed," but the price of this issue quickly dropped.

- (2) From the Summer of 1930 through the Beginning of the Second Quarter of 1931. This period showed systematic and world-wide liquidation. "Good old fashioned" depression forces were evident and business declined to real depression levels. In some countries, not as extensively debtor countries as Germany and Austria, money eased and the basis was laid for business recovery. Early in 1931 there were faint signs of business stabilization and improvement in security prices. Recovery at this time would have been in keeping with the usual length of a major depression, which was placed at 17 to 20 months. Improvement in the United States was not followed by improvement

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in other countries, but this is not unusual.

- (3) From September 1931 to June 1932. This was the period of international financial breakdown, the worst of any ever known. This undoubtedly caused the prolongation of the depression, as was the case in the United States in the 1870's and 1890's, and in Europe in the 1870's. Due primarily to the destruction of the credit of debtor countries, these debtor countries were no longer able to obtain foreign borrowings and, of course, could not pay out of ordinary income. Reflecting restrictions on foreign trade and foreign exchange, including the control of imports, quotas, tariffs, exchange restrictions, the volume of foreign trade was reduced markedly (in this connection it should be noted that a fall in the prices of leading commodities was responsible for a large part of the drop in foreign trade, a consideration not mentioned by Mr. Bullock). The collapse of Central Europe was followed by the Hoover moratorium. This, however, was not in time to help the Reichsbank. The suspension of gold payments by England ensued, as did the wreckage of the gold exchange standard. Consequently, the gold exchange countries drew gold from New York, after having suffered considerable loss on their balances in London. The drive on the dollar from abroad coincided with the hoarding movement in the United States. Mr. Bullock explained that the United States had been lending largely on long account and had been borrowing largely on short term account. Our demand obligations, represented by foreign deposits and other short term funds in this country greatly exceeded our quick assets abroad. At the same time there was some domestic hoarding of gold, some people going to the Reserve Banks because they did not want to go to their own banks for this gold (Actually many banks sent their customers to the Reserve Banks to obtain gold, since there was no obligation on the banks' part to furnish other than legal tender).

Other developments attending the financial disaster of 1931-32 were the passing of "fool" legislation by the United States Congress, such as the Goldborough Bill, etc.

- (4) From June or July 1932 to the Present Time. In June the danger to the gold standard in the United States ceased, as foreigners did not have enough gold to throw us off the gold standard. Our own people became "sane" about hoarding (actually this was a result of the reduction in the number of bank failures). Subsequently there was a return of gold to the United States, improvement in bond prices, a decline in hoarding, an increase in stock prices, and some recovery in business. (Mr. Bullock made

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the point that the reduction in the number of bank failures followed a decline in hoarding, which is somewhat contrary to our ideas that hoarding is governed by the number of bank failures.)

During this period bank deposits also stopped declining and then turned upward, and there was a sharp upward turn in some lines of construction, with indications that the worst was over in building. Price stabilization gave evidence that liquidation in commodity markets was approaching its end. By September seasonal increases in many lines of business had been reported, whereas in the same period of 1930-31 no seasonal improvement was evident.

The first of these phases of the business depression was unusual, the second phase was the usual development, the third phase was an unusual one, while the fourth was the usual.

The Business Outlook - Continued by W.L. Crum of the Harvard Economic Society.

The recent positions of the Harvard Economic Society curves have given a forecast of the cyclical revival of business. The September curve A (Speculation) advanced one full cycle point, and the continued decline in curve C (Money Rates) is favorable. The recent decline in curve A has not cancelled the earlier advance, and unless further declines in that curve reverse the situation, the Harvard index chart will continue to point to business improvement. The curve B (Business) is still declining, but such a condition is to be expected, since there is customarily a lag between a cyclical advance in curve A and curve B.

The dominant economic factor in the period between September 1931 and June 1932 was the gold outflow from the United States. Henceforth the Harvard Economic Society chart will have its usual significance, because of the cessation of the financial panic, and providing that no further money panic develops.

The Outlook for Next Year

(1) Credit Factors

The Reserve Banks capacity for very large purchases of Government securities has been absorbed.

The easy money situation has been successful in so far as meeting the gold outflow is concerned, but has not influenced business.

Member banks are in a position to expand credit, but cannot force expansion in commercial loans, a situation which lies with the borrower.

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Credit by emergency agencies has helped enormously, but has only limited effectiveness in new projects. The success of the Reconstruction Finance Corporation schemes rests on a vigorous cyclical revival of business.

(2) Cyclical Factors

Continued crises in international finance and trade.  
Tariff barriers.  
Gold movements.  
Instability of commodity prices.  
Impairment of credit throughout the world.  
Redistribution of gold not achieved.  
War debts - nothing has been settled.  
Domestic budget problem - Danger of soldiers bonus and general relief measures.  
Municipal budget crises - Slackening of public improvement projects.

(3) Factors of Commodity Price Stabilization Here and Abroad.

Price index dominated by a few international commodities which will be governed by lack of balance in international finance, and subject to influences of supply and demand within themselves. At least two important commodities are likely to move favorably to business recovery.

(4) Industrial and Business Factors

Deferred demand - Current effective demand less than normal requirements, for example, in cotton textiles. Release of dammed-up consumer demand is an important element.  
Capital goods - Existence of demand not as evident as in consumer products.  
Some possibility of improvement in building construction.  
Maintenance neglected - general wearing out.  
Corporate earnings so low that inability to get long term capital affected.

Conclusion:

The weight of evidence is now favorable to business recovery. Forces of restitution now more powerful than in 1931. Mr. Crum forecasts that the upturn will probably be a slow recovery (very slow and very gradual), and that the low level of commodity prices will retard recovery.

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Saturday Morning Session, Nov. 12

Professor J.D. Black of the Harvard Economic Society on the Agricultural Situation.

The six most significant factors bearing on the agricultural situation are as follows:

- (1) The index of farm commodity prices is now under 60, compared with 70 to 80 a year ago, 117 in 1930, and 138 in 1929.
- (2) Acreage is now 1-2 per cent larger than last year, 1 per cent less than in 1930, and about the same as in the last 5 years.
- (3) Yields per acre are 3.9 per cent <sup>below</sup> the 5 year average.
- (4) Gross income of farms is only 44 per cent of that in 1929.
- (5) Net income of \$3,400,000,000 in 1932 compares with \$6,500,000,000 in 1929.
- (6) Land values are now 89 per cent of the pre-war, a decline of 17 per cent during the past year. Between 1921 and 1922 the decline in land values amounted to 16 per cent.

There has been a decline of \$215,000,000 in the farm mortgage holdings of insurance companies, Federal Land Banks, and Joint Stock Land Banks, due to foreclosures.

Farm population has increased during the last year nearly to 32,700,000, or about the 1910 level.

The decline in farm prices since 1921 has amounted to 60 per cent, while the general level of all commodities at wholesale has declined 34 per cent. In 1920 and 1921 the drop in agricultural prices and the general level of wholesale commodity prices was more nearly equal, farm prices dropping to 44 per cent and all wholesale prices 37 per cent. Prices of industrial commodities offer more resistance than farm prices, due to the inelasticity of agricultural production. Furthermore, agricultural income has been affected unfavorably by the steadiness of transportation costs.

The low point in the hog cycle apparently has been reached, with prices recently up to \$4 per hundred weight.

Net farm incomes have declined less than gross incomes. Wages of farm labor are down 10 per cent from the pre-war level.

Farm real estate taxes have also been reduced somewhat, the index of farm taxes dropping from 267 in 1929 to 250 in 1932. On the whole, farm expenses are only 9 per cent above pre-war.

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Present land values reflect prospective incomes in the next 15 to 20 years.

The Land Banks can sell property at foreclosures and apply the proceeds to redeeming their depreciated bonds and consequently <sup>im</sup>prove their balance sheet position. The general procedure then is to put farmers back on the farms as tenants and consequently no reduction in the number of farms has resulted.

This is the third year of increase in farm population, offsetting a decrease of 1,500,000 persons between 1920 and 1930. The increase in <sup>the</sup> farm population since 1929 has been due to the "Back to Land" movement, and to the fact that farmers are not coming to the cities. Professor Black quoted a citation in one of the Department of Agriculture's pamphlets, namely "Dad's grub tastes good." The net effect of this movement, however, is that farm production tends to increase while urban consumption is reduced.

The dairy products states have now joined other sections of the country in the decline in land values.

Agriculture must look forward to a period of 5 to 8 years in order to get back to a period as good as 1928 to 1929, which was for the farmers a much less prosperous period than for the rest of the country. In the first few years of the coming 5 to 8 year period farmers will ~~no~~ little better be able to take care of interest and principal on mortgages than in 1932, and will be not able to buy many articles, such as clothing, furniture, household improvements, etc.

Inability to meet interest payments will cause further foreclosures. Land values will drop another 10 points in 1933 and 5 points in 1934.

Arrangements for deferring interest payments in order to avoid foreclosure pressure - some kind of a system such as the Minnesota and South Dakota systems which got into real difficulties, will probably come into being during the next year, as Governor Roosevelt appears to be committed to such a program. Such a refunding operation would strengthen land values. Several plans for aiding agriculture have been advanced, among which the most prominent is the voluntary domestic allotment plan, on which there are two variations, one by a man by the name of Noyes, of St. Paul, and the so-called utilization plan.

The Noyes plan ~~aims~~ to utilize the taxing power of the Federal Government. Whenever a farmer took to market a load of grain or cotton he would receive the domestic price and a premium on that part of the crop consumed at home and no premium on the exportable part. Price is to be announced in advance.

The more generally ~~unknown~~ voluntary domestic allotment plan is a scheme for determining in advance what a farmer's custom-

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ary production has been in the past and assign to him a definite acreage upon which he will receive a premium. Anything extra that he produces will yield no premium. This scheme entails a pro rating of production, and 60 per cent of the producers must vote affirmatively on the plan.

It was brought out in the subsequent discussion by Dr. Lincoln, of the Western Electric Company, that while 25 per cent of the population is on farms, this proportion of the total population buys only 15 per cent of the producers' and consumers' goods. Dr. Lincoln heatedly explained that, despite these facts, some sort of a price fixing scheme for agriculture is likely to be foisted on the rest of the population of the United States. Professor Black countered by calling the 15 per cent consumptive power a decided understatement.

Professor Black further brought out that business recovery is more dependent on agricultural improvement now than in 1921. He stated that we must look to agriculture in view of our hemmed-in national economy, unless we take measures to open foreign markets.

Mr. F.L. Hayford, of the General Motors Corporation, on the Automobile Industry

Mr. Hayford opened his remarks by saying that the automobile industry has fallen on evil days. It is necessary to go back to 1918 to get as low a year as 1932 automobile production. The total output in 1932 will be only one-quarter of 1929, less than three-fifths as large as 1931, and only about five-sixths as large as 1921.

The export part of the automobile industry has suffered most. 1932 exports account for 8 3/4 per cent of total production, in 1931 for 10 per cent, and in 1929 for 14 to 15 per cent. He said that it is hard to see any increase in foreign demand, with little hope of much export business. The domestic market now constitutes at least 90 per cent of the total market.

Reasons for the low 1932 production:

- (1) Very drastic decline in individual incomes, which alone would have been sufficient to cause low production.
- (2) The fear complex caused people to refrain from buying that which they could afford.
- (3) The existence in consumers' hands of a large amount of unexpended transportation - the 20,000,000 cars sold in the years since 1921, although now running, will soon have to be replaced.

Effective consumer demand does not entirely depend on an increase in the national income, and the reverse of this is true as is shown by a drop in automobile buying in the recent past of larger proportions than the drop in the national income. Much

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of the automobile buying is not out of income. Cash sales are made entirely out of past savings, while instalment sales are made out of savings and current earnings, with the down payment covered by savings, and instalments taken care of by earnings.

There is a substantial volume of savings in existence now which will be used to buy automobiles as soon as confidence is restored.

In June there was a decidedly counter-seasonal movement of automobile sales, which preceded the going into effect of the sales tax. This was followed in July by a sharp drop, but in August automobile sales were better than seasonal. September also showed a better than seasonal experience, as has October, with the exception of sales of Chevrolet cars, which have been restricted by the exceedingly small stocks of this type of automobile. All other makes of General Motors cars have shown a better than seasonal experience.

In the belief that there is a volume of savings that can be drawn on to buy automobiles lies the potential source of the initial stimulus to improvement in the automobile industry. For a large and sustained improvement, it would be necessary that employment increase substantially and that payrolls increase more than employment.

Mr. Hayford believes that marked improvement in the automobile industry will be slow in coming, for three reasons:

- (1) The difficult agricultural situation - only a few sections of the country, principally those raising tobacco and cotton, will be able to buy automobiles.
- (2) The length and severity of this depression have caused many cars to be run for such a period that their trade-in values have dropped to a figure below the cash payments required on new cars. Many automobiles now have negligible trade-in value.
- (3) Increase in gasoline taxes and tendency to further increases.

Mr. Hayford believes that the 1923 to 1929 volume will return at some time, but as regards the immediate situation slow improvement is indicated.

New car stocks are less than 50 per cent as large as a year ago, as sales to consumers in the last twelve months have been 100,000 units larger than production. The October 1932 production of about 50,000 units reflects the preparation of new models and compares markedly with 636,000 units produced in one month during the spring of 1929.

Due to low dealers' stocks and principally the shortage of Chevrolet cars, November production should show some increase, and December production should show a marked increase, with the total output 75 to 100 per cent greater than October.

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The used car situation has improved since the summer. Stocks are lower than a year ago, and there is a real shortage of good low priced cars, with a large potential demand in evidence.

Some enlargement in 1933 automobile production was forecast by Mr. Hayford. Recovery in the automobile industry should be earlier, more rapid, and more pronounced than the pick-up in the general business activity.

Mr. Joseph B. Hubbard, Editor of the Review of Economic Statistics, on the Construction Industry.

Total building construction in 1929 was 13 per cent less than in 1928, the 1930 total was 21 per cent below 1929, the 1931 volume showed a reduction of 32 per cent from the previous year, and the 1932 contract total will be off 50 per cent or more from 1931.

Public building expenditures during 1930 totaled \$294,000,000, in 1931 \$476,000,000, in the year ended June 1932 over \$500,000,000, and expenditures during the year ended June 1933 are estimated at over \$750,000,000. The public building program in this depression has not been due to inertia, as in 1920-21.

Mr. Hubbard stated that the Home Land Banks promise some relief in the building industry, as does the Reconstruction Finance Corporation, which is currently making loans to self-liquidating projects at the rate of \$25,000,000 monthly.

Unfavorable factors in the construction industry at the present time are that rents are continuing to decline, vacancies exist in considerable numbers, taxes exert a depressing influence, and mortgage foreclosures are in considerable volume. The only favorable factor which he mentioned was a reduction in the cost of building.

Mr. Hubbard stated that building activities at the present time were probably close to the minimum, and that 1932 will prove to be the low year of the cycle. Mr. Hubbard gave a review of the building industry by quoting the various classifications of the F.W. Dodge Corporation data. These data and a diagram showing annual indexes are shown on the appended sheet.

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Saturday Afternoon Session, Nov. 12  
Composite Indexes of General Business Activity.

Leader of discussion Seymour L. Andrew, Chief Statistician of the American Telephone & Telegraph Co..

Mr. Andrew, in outlining the subject under discussion, said that three considerations had governed their decision to calculate a composite index of business activity. These were:

- (1) Can business be measured?
- (2) The usefulness of a composite business index.
- (3) The limitations of a general business index.

A large wall chart was presented at the meeting, showing the new A.T. & T. index, the Cleveland Trust Co. index, the Times Annalist index, and the Carl Snyder volume of trade index. These business indicators showed great similarity of movement for the period 1919 to date. The volume of trade index in 1921 and in the present depression did not drop as low as the other series, reflecting its broader scope, the other three indexes being primarily production indexes. (Note: The relatively greater decline in the volume of trade index during the present depression than in 1921 doubtless reflects the effects of a long-drawn-out depression on consumer demand.)

Mr. Belcher, of the A.T. & T., described in fairly general terms the preparation of their business curve. It was found that the basic industries formed the most convenient source of data, and served satisfactorily, except for the matter of amplitude of movement between the various series. Their former business index was presented as an index of the "Volume of general business compared with normal." The use of the word "general" was believed to have misled people, and their new index is called "Industrial Activity as Related to Long Term Growth." Both indexes refer entirely to industrial production, and neither was in any sense a general business activity index; 12 series, essentially manufacturing, were included.

There were two important limitations on the old index.

- (1) The A.T. & T. had no idea of the trend of the total.
- (2) The difficulty of removing standard deviations from the trend.

The Day-Thomas index of manufactures for census years, with an interpolation of the cyclical pattern over the points of the Day-Thomas index to give a continuous series was used to determine the long term growth. It has been estimated that the Day-Thomas index includes 87 per cent of the total of manufactures. The purpose of the American Telephone & Telegraph Co.

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in computing their own business activity index is to arrive at a preliminary figure soon after the close of a month, and to ascertain a good semi-final figure for the preceding month.

Mr. Glover, of the A.T. & T., continued the discussion at this point, stating that since June 1920 the A.T. & T. index has been composed of the following series, with the weights shown below:

Steel .....	10
Pig iron .....	5
Passenger automobiles .....	10
Building contracts (volume) .....	10
Cotton consumption .....	10
Wool " .....	5
Bituminous coal .....	5
Miscellaneous carloadings ...	15
Electric power production ...	15
Factory employment .....	15

The use of standard deviations has been availed of to adjust variations in amplitude. Some substitutions of series in the index have been made. For instance, building contracts awarded have been substituted for building permits. A concise description of the new A.T. & T. index, together with the method of computation, is shown on the appended sheet.

Mr. B.B. Smith, of the Cleveland Trust Co.

Mr. Smith opened by remarking that this depression has shown that no bottom level such as 70 per cent of normal exists for business indexes. Fluctuations of business are not damping down. Business indexes also do not tell us where we are going - in the last three years it has been necessary several times to distinguish between minor jiggles and a real upturn. Furthermore, it has been shown that there is no regular periodicity of business. The technique of handling these indexes to some extent has been fallacious, even the projection of what might be termed normal.

Mr. Smith also stated that there was a distinct need for more weekly index numbers to cover a more comprehensive field. Mr. Smith also remarked that there was some evidence of distortion of seasonal indexes at very low levels. Subsequent discussion at this meeting, however, disclosed that there is no conclusive evidence that the level of business activity (cyclical movements) materially affects the seasonal adjustment factors - representatives of both the A.T. & T. Co. and the Harvard Economic Society subscribed to this.

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There is also need for foreign business indexes and for domestic indexes back through 1830. (Note: In the field of economic history I have ascertained that the firm of Young & Ottley is doing some work with the limited business data available back to 1800).

Mr. Smith also raised the question concerning the popularity of business activity indexes and the publicity given business activity charts as being perhaps a hindrance to business recovery. This is purely a psychological factor having to do with the bad showing of business at the present time.

The suggestion was made by Mr. Smith that a general business activity index, to be computed by some branch of the Federal Government, would be welcomed by the financial community. Something as inclusive as the Bureau of Labor Statistics commodity price index, to which business looks for information concerning price movements, was the intention of these remarks.

Mr. Smith ventured to say that we will know more about the usefulness and efficiency of index numbers before this depression is over.

At this point Mr. Andrew, the leader of the discussion, stated in a facetious vein that "statisticians" are being blamed for having caused this business depression, because for the first time they have told business men how really bad business is.

Mr. Frickey of the Harvard Economic Society.

The development of the Harvard Economic Society curves was traced. They were completed just after the close of the war and were based on monthly economic series for the pre-war period.

- (1) The first step was to examine and adjust each series for secular trend and seasonal variation.
- (2) Each series was charted and compared.
- (3) A classification in groups having a simultaneous fluctuations.
- (4) Group composites were made, at first 5 groups, and subsequently 3 groups.

Group B was composed of industrial activity and commodity prices, and included bank clearings outside of New York City, pig iron output, Bradstreet's wholesale price index, and the Bureau of Labor Statistics wholesale price index. In 1923 this group was reduced to bank debits outside of New York City and the B.L.S. wholesale price index.

The Harvard Economic Society has adhered to the thought that the B curve is still a good indicator of the state of business,

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not of the aggregate volume of business.

From time to time adjustments have been made of series for secular trend and seasonal variation.

Revision of 1931 - The commodity price series was dropped from curve B, leaving only bank debits outside of New York City. As debits are expressed in dollar volume the disproportionate weight of prices was reduced.

Check payments tend to lag after business develop<sup>ments</sup>, and consequently curve B pictures the cyclical but not precise month to month changes in the pecuniary volume of business. They have no exact measure of the average lag, but such evidence as is available suggests that no great lag exists.

Effect of stock speculation - Around 1928 it became evident that speculative activity was overshadowing business activity and consequently was having an effect on the movement of bank debits. Prior to August 1928 the Harvard Economic Society used bank debits in 140 centers. At that time they eliminated the debits for the 7 so-called financial centers, reducing the number of cities to 133. Early in 1931 the bank debits series was further reconstructed, with 108 new cities being added to the 133 mentioned above. These 108 new cities were cities which were considered even less financial than the 133. Tests conducted with a sampling of the new cities added in comparison with 133 cities show that the two series traced about the same movement. The elimination of the debits for 7 cities in 1928 eliminated a large part of the effect of stock speculation, but a small residue of speculative influence remained. This amounted, however, to only a small fraction of 1 cycle unit.

Mr. Crum of the Harvard Economic Society stated that the B curve normal has been revised and he ventured to say that the normal of other business indexes either (a) ~~they~~ already have been revised, or (b) certainly will be, and that perhaps in the course of the next 10 or 12 years will have to be further materially revised downward.

In subsequent discussion there was general agreement not to talk in terms of normal, which is a word not understood correctly by the public, but rather to express indexes in terms of percent of trend.

A question put to the Chairman was answered by him, that the A.T. & T. Company's index, with no allowance for trend, now stands at 150 on an 1899 base. This level is equivalent to that existing in 1909.

The suggestion was made that business activity indexes might be expressed in per cent of normal capacity. Mr. Crum answered this by saying that he thought it would be perfectly feasible for certain indexes, such as the public utilities, which have a great and steady growth factor, but that in many other industries the normal capacity tends to change in irregularly timed jumps.

FEDERAL RESERVE BANK  
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Mr. Benjamin Baker, Editor of the Annalist.

Mr. Baker launched a general attack against the use of deseasonalized figures as misleading. None of his points seemed to be sustained, and, after a wandering discussion, he concluded.

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Saturday Evening Session, November 12  
Professor J. A. Schumpeter, Harvard University, on the European  
Financial Crisis of 1931.

With the enactment of the Hawley-Smoot tariff and with the reparations question unsettled, European affairs took a dangerous turn by the end of 1930. In 1931 Germany started really to pay by means of an export balance. A 3 billion mark favorable export balance would have had something to do with the 1931 smash even if there had not been other causes.

The proposed Customs Union between Germany and Austria in March 1931 was a purely political affair to which France reacted unfavorably. Professor Schumpeter has no sympathy with the theory that France made a drive against the mark. The French Government did not actually draw any balances but did "frown financially," and short term funds consequently came back to France.

Germany entered 1931 with liabilities of 12 billion marks of long term funds, 11 1/2 billion of short term funds and 5 billion of stocks. Against this there were only 8 1/2 billion of German funds in other markets and these soon became frozen. There was a flow of funds out of Germany in March and April of 1931.

The bankruptcy of the Credit Anstalt had a particularly bad effect since 75 per cent of Austrian industry depended on the Credit Anstalt. The connection of the Rothchild firm with its great name also was unfortunate. Germany was affected morally but not greatly financially. Germany proceeded by the decree of June 5, 1931, to reduce expenditures, balance the budget, and increase exports.

If the Hoover Moratorium had been accepted at once things certainly would have mended, but as it was, French capital took flight from England and the United States with a resulting severe drain on the Bank of England. Following the closing of the Danat Bank in July 1931 the Reichsbank lost gold in a frenzy. Dr. Luther went begging by aeroplane and received some help. In all, Germany took steps which look like bankruptcy and continued to drift. The Danat Bank was reorganized and the Duesdner taken over.

Meanwhile the crisis had taken hold in France, and some banks got into trouble and applied to the government for help. The looking to government for aid is typical of Europe.

The situation in England became progressively worse. (Here Professor Schumpeter proceeded to denounce English policies stating that if a country is on the gold standard it must not make political mistakes.) England heaved a sigh of relief when it abandoned the gold standard, comparable to the feeling of a man going into bankruptcy. The decline of the pound sterling did not help industry because the fundamental difficulties remain.

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France lost its surplus in the Treasury because of government squandering, and Germany pursued systematic deflation by cutting prices and wages. (A perfect example of how to produce a crisis.) The deflation in Germany was pursued in order to compete with England.

Professor Schumpeter expressed the belief that some of the outflow of gold from the United States reflected an export of domestic capital from the United States, basing his belief on the talk of impending oppressive taxation which subsequently was passed.

It was the belief of the speaker that the 1931 difficulties were chiefly political.

Prognosis - There is every condition fulfilled for a modest recovery in business to come about. The world has, however, lost patience with the theory of letting economic life recuperate by itself. International inflation may appear to give hoped for quick prosperity, but if inflation does appear, the day of reckoning will surely come.

Professor J. Franklin Ebersole, Harvard Economic Society - The appraisal of the economic effects of the Reconstruction program. Professor Ebersole opened by stating that the situation today has never been as bad in a century. 11,000 out of 30,000 banks have been closed. The Reconstruction Finance Corporation activities he characterized as "a drop in the bucket." A reduction in the national income from 90 billion in 1929 to an estimated 45 billion dollars in 1932 means that capitalized at 5 per cent, there has been a loss of 1,000 billion dollars of assets, against which the Reconstruction Corporation is proposing to furnish 2 to 3 billion dollars. (Professor Ebersole apparently intends that the R. F. C. should not only furnish the initial stimulus but all credit and capital.)

The point was made that reorganized concerns can compete fiercely with concerns which continue to carry their old overhead and fixed charges.

In connection with R. F. C. loans to railroads it must be recognized that fixed charges also include wages because they have proved to be of an inflexible nature.

Mr. Ebersole called the first Reconstruction Finance bill purely a salvage operation with a provision that "not one dollar is to be loaned to new enterprise," while under the second bill as much as 1 1/2 billion dollars, if loaned for self-liquidating projects, would only equal the usual amount of construction. He feels that the whole reconstruction program has been to defer the inevitable. He attacked the 300 million dollars of relief funds as a very small amount all of which would be needed this year.

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In his opinion the Reconstruction Finance activities simply shift the burden of readjustment from those who should carry the task to those who pay the taxes. He feels that railroad interest payments made by the R. F. C. will be paid for over the next 10 years by income taxes.

The R. F. C. is playing for a turn but Mr. Ebersole does not feel that such a turn will arrive until there has been a realization of business losses. He feels that the R. F. C. expenditures increase, postpone, and prolong the mental adjustment necessary to make business take its losses.

Mr. Ebersole questions whether the crisis is really over, although the panic (acute phase) appears to be over. Bank failures have not stopped and bankers continue unduly timid (in a sarcastic manner he remarked that a few bankers will now buy short term high grade securities).

With reference to the Federal budget, it is necessary in order to maintain our prestige in Europe to pass increased taxation measures by at least next March. Income tax returns then due will show a very poor yield. If it proves to be too difficult to balance the budget by taxation American history seems to indicate that increased paper money issues will ensue.

In view of the sound money plank in the Democratic Platform, Mr. Ebersole hopes that Governor Roosevelt will veto bills amending the gold standard and also various pension schemes.

The problem of the R. F. C. liquidating itself will be evident by January 1, 1933.

Colonel Leonard P. Ayres, Vice President, Cleveland Trust Company - The Business Outlook.

Prior to the present depression there have been only four depressions in our history that lasted as long as four years, namely:

1829 4 1/2 years

1840 6 "

1870 6 "

1890 6 " , interrupted in 1895 by five months of prosperity.

All of these depressions followed great speculative activity and all were attended by fears for the safety of our currency. However, prosperity returned after these depressions without a return of general prices to the previous prosperity level.

Although all of the 20 previous depressions in American history have corrected themselves, this depression challenges the idea of self-cure for a number of reasons.

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1. At the present time there is no great expanding industry.
2. There has been a complete collapse of our export trade.

Mr. Ayres made the point that in previous depression periods the exports during one year of the depression exceeded those of the previous year of prosperity. While exports equal only 10 per cent of our total production, they loom large in certain commodities, such as cotton, copper, and tobacco.

Government aid is clearly indicated through the medium of tariff revision, war debt settlements, and trade treaties.

In the absence of any great expanding industry, the Federal Government has got to stop the flow of funds into Government securities, but a prerequisite of this is that the Government has got to make way for corporate issues by clearing the decks. This would be accomplished by selling a long term bond issue but this in turn depends on taking steps to balance the Federal budget.

Mr. Ayres placed the real cause of the depression on the maladjustment of prices. The two great groups of urban and agricultural population may be further subdivided into four groups namely:

Farmers and Miners  
Industrial Pursuits  
Trade and Transportation  
Service (personal, domestic and  
government, salesmen)

In 1913 the balance between these groups was pretty good. Now farmers are selling their produce for half what they received in 1913, while industrial workers are selling their services for twice as much as in 1913. Under these circumstances the exchange of goods is impossible. Consequently, the trade and transportation group have not much work to do and because these three groups have not much work to do they are not able to employ the service group. This comparison applies also to the world situation.

Two solutions of the problem were offered. One way is to fix prices upward, but we do not know how even by monetary inflation (no example of success in any nation untied from gold). The other way is to facilitate adjustments at the prevailing low level of prices. An automatic cure seems impossible because of warehouse stocks of raw materials which are now twice as large as at the beginning of the depression but whose value is only 1/3 as great. There is a great overhanging weight of these stocks at the present low values. Cheapsening our money would not restore our exchange relations.

Due to the present manufacturers' stocks held at low prices it is necessary to look to government for help in tariff readjustment to work down these stocks of staple commodities. Barter arrangements might also be worked out by the government, and war debts could be used as an instrument of bargaining to get rid of this surplus.

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Colonel Ayres also suggests corporate reorganization. A revision of the Federal bankruptcy laws to prevent minority stock holders from hindering reorganizations would be helpful.

The prospects for recovery depend on the prudence of the Federal Government in years ahead, concerning tariff revision, war debts, balancing of the budget, and sound money.

Measures to safeguard the public interest in this emergency were made in the hope of a price recovery and the creation of the Home Loan Banks was also on this theory, but if there is no revival of prices a tremendous job is in prospect to finish liquidation of the R. F. C.

Colonel Ayres cited as fields for inflation the present large reserves of member banks, the return of hoarded currency, Federal Reserve policy, and a possibility of the new administration responding to quick inflation as against the slower recovery. Colonel Ayres stated that his guess would be that Congress and the administration will choose the long hard grind of sound money. He thinks that 1933 will be a year of halting irregular progress toward recovery.

Mr. Ayres' specific forecasts for 1933 are as follows:

Industrial production in 1933 will be greater than in 1932 and less than in 1931.

The rate of output in the iron and steel industry at the end of 1933 will be higher than at the end of 1932 and will be lower than at the end of 1931.

Coal production will be more in 1933 than in 1932 and less than in 1931.

Production of automobiles during 1933 will be more than 1 1/4 millions and less than 2 millions.

Freight carloadings in 1933 will be greater than in 1932 and less than in 1931.

Factory employment in 1933 will be greater than in 1932 and less than in 1931.

The cost of living will continue to decline in 1933.

Industrial wage rates at the end of 1933 will be lower than at the end of 1932.

Business failures in 1933 will be more than in 1932.

Corporate dividends in 1933 will be less than in 1932.

Commercial paper rates in 1933 will be below the 1932 average.

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## Office Correspondence

FEDERAL RESERVE  
BOARD

Date November 29, 1932.

To Mr. Hamlin

Subject:

From Mr. James

Dear Mr. Hamlin:

Referring to our conversation about the disuse of tractors and the re-employment of horses and mules on farms, will say that recent observations made by me on trips through the cotton growing districts indicate a very rapid return to the use of work animals and the discontinuance of tractors and automotive vehicles in the agricultural sections. This, to my mind, is a very healthy condition.

I was told in Memphis the other day that several wagon manufacturing concerns were working overtime and I was likewise informed that at Dallas, which is the largest center for the manufacture of harness and saddlery in the country, saddle and harness makers were working night and day in order to keep up with the demand.

The Department of Agriculture sometime ago published a statement that there were eight million less work animals in the United States now than there were in 1920. On the basis of feeding each work animal a peck of corn or its equivalent for the grain ration, and twenty pounds of hay per day as a filler, it would require six acres of average American farm land to feed each animal. A return to the horse and mule, therefore, to only the extent that they were employed in 1920, would mean a revival of activity in the production of feed stuffs of approximately forty-eight million acres of land. I assume this would give employment to somewhere in the neighborhood of three to five million people.

I maintain that the return of people who migrated from farms to the industrial centers during the last decade, to the farms, is inevitable as it provides the only known way whereby these people can obtain food. The return of the horse and mule, therefore, offers a very wide field for the profitable employment of a very large horde of these people.

From my viewpoint, therefore, it is all-important that every effort should be made that would tend to put agricultural activities on a paying basis. My suggestion relative to the acceptance of cotton and other agricultural products in settlement of debts was predicated upon this idea.

Sincerely yours,

G. P. [Signature]

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## Office Correspondence

FEDERAL RESERVE  
BOARDDate December 2, 1932 *See Nu*To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Goldenweiser *Goldenweiser*

2-8495

You suggested on the telephone this morning that I think over the possibility of the British payment of \$95,000,000 due on December 15 being made by having this country keep an account in England of that amount to be invested by them in bills arising from trade with the United States.

You probably have noted that the British in their note have this to say on the subject: "The exchange difficulty would remain even if the device were adopted of payment in sterling to a blocked account; for the existence of a large sum awaiting transfer would affect the market almost as seriously as an actual purchase of exchange." I do not know whether the British statement is an over-statement on this subject or not. There is no doubt about the fact that such an account would be a depressing factor.

The additional point that you suggest is that they should invest the funds in bills arising out of American trade. If those bills were to be dollar bills, they would have to acquire dollars immediately, and the effect on the exchanges would be just the same as payment in cash. If, on the other hand, they are sterling bills, this amount overhanging the market over and above current and seasonal requirements would depress sterling. If the arrangement were made with the definite agreement that it was to last for two or three years, I should be inclined to think that much of that objection would be removed. I find, however, that the British are strongly opposed to that proposition as a matter of pride. The blocked account has been used

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Mr. Hamlin, - #2

December 2, 1932

freely in the last year or so by a lot of minor countries, and I suppose England feels about using it a little like a reputed wealthy man would feel about being discovered buying a suit of clothes on the installment plan. For England to be obliged to resort to this device for a payment of \$95,000,000 appears to them humiliating. They would much rather ship gold, even though that would hurt their reserve position, and personally I am inclined to think that they would rather default than accede to this proposal. Of course in saying that I am giving you simply my opinion without any assurance that it is correct.

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*Hamilton, Searles*

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, NOVEMBER 1932

Federal Reserve Bank	Month of November 1932									Jan. - Nov. 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	\$37,349	\$9,009	\$126,857	\$3,068	\$176,283	\$148,437	\$158,782	\$17,501	2.0	\$887,984	8.6	\$261,555
New York	133,963	39,113	1,000,654	23,300	1,197,030	510,859	517,800	679,230	14.1	8,911,934	16.4	5,871,979
Philadelphia	140,792	12,249	183,667	9,726	346,434	145,924	163,052	183,382	13.9	2,825,652	19.0	1,956,639
Cleveland	82,074	11,964	232,602	8,584	335,224	203,348	218,030	117,194	10.1	2,461,500	18.8	1,632,096
Richmond	53,752	5,762	61,601	4,849	125,964	114,912	117,416	8,548	2.0	466,394	9.7	174,210
Atlanta	62,915	6,229	60,856	7,938	137,938	94,463	97,102	40,836	10.6	751,445	16.8	479,211
Chicago	37,230	15,883	287,761	31,888	372,762	265,283	269,573	103,189	7.8	2,131,214	13.5	1,678,049
St. Louis	23,867	4,099	87,430	6,748	122,144	104,218	111,902	10,242	2.8	254,419	6.2	-7,221
Minneapolis	35,194	2,576	83,641	2,440	123,851	74,938	76,586	47,265	19.8	469,827	17.5	303,033
Kansas City	44,630	3,435	74,789	20,345	143,199	125,152	127,529	15,670	4.7	410,483	11.0	179,674
Las Vegas	23,404	3,317	67,475	2,951	97,147	91,554	91,716	5,431	1.7	166,450	4.6	-60,832
San Francisco	187,359	8,875	161,053	7,254	364,541	195,820	206,690	157,851	18.3	2,851,144	28.7	2,218,919
TOTAL												
Nov. 1932	862,529	122,511	2,428,386	129,091	3,542,517	2,074,908	2,156,178	1,386,339	11.1			
Oct. 1932	932,561	122,499	2,605,973	129,414	3,790,447	2,126,947	2,196,177	1,594,270	12.3			
Nov. 1931	1,922,067	879,314	975,767	331,335	4,108,483	2,109,160	2,207,796	1,900,687	14.1			
Jan.-Nov. 1932	17,078,970	2,665,556	24,605,534	2,267,175	46,617,235	23,010,109	24,028,789	22,588,446	15.9	22,588,446	15.9	14,687,312
1931	7,528,880	4,320,162	11,140,220	1,960,394	24,949,656	23,356,137	24,752,254	197,402	.1	197,402	.1	-7,676,010

FEDERAL RESERVE BOARD  
DIVISION OF BANK OPERATIONS  
DECEMBER 10, 1932.

*Q 130*

December 6, 1932.

see Bm

Need to amend by C. 32  
Dec 6, 32

The letter of the Federal Reserve Board states that effective supervision of banking has been seriously hampered by competition between member and non-member banks, and that the establishment of a unified system of banking under national supervision, is essential to fundamental banking reform.

The words "unified system of banking" do not necessarily mean a national system of banking, but would include a system of national banks and state bank members of the Federal Reserve System.

The New Oxford dictionary defines the word "unified" as follows:

That is, or has been, made into one from separate parts; united; combined; consolidated.

In discussing the question of power, there are two ways of obviating the competition between member and non-member banks:

1. To destroy all non-member banks and force them to take out national charters.
2. To force non-member banks to join the Federal Reserve System, with some amendment to Sec. 9 of the Federal Reserve Act.

The original draft of opinion of Counsel held that Congress had the constitutional power to do either one or two, or both.

The new draft omits specific reference to #2, and merely advises that Congress can force all banks to nationalize.

It is true that the new draft contains phrases which might imply that Congress, having the greater power, would also have the lesser power

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of forcing banks to join the System, but every specific reference to this power is eliminated from the present draft of opinion.

I believe this lesser power should be clearly expressed, as was done in the original draft.

To cover the ground expressed in the Board's letter by merely referring in the opinion to the power to force all banks to nationalize, is to suggest such a radical remedy as to make it extremely unlikely that any legislation concerning it could be enacted in the near future, while if it is pointed out that a less radical remedy, - requiring membership in the Federal Reserve System - would be constitutional, it is possible that Congress might be induced in the near future to accept this as one step along the road to a final requirement that all commercial banks must be nationalized.

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## Office Correspondence

FEDERAL RESERVE  
BOARD

See No

Date December 9, 1962.

To Mr. Hamlin

Subject:

From Mr. James

2-8406

I am returning herewith the letter you handed me  
this morning from Mr. Delano together with copy of my letter  
to him of today.

*Geo. R. James*

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December 9, 1932.

Mr. Frederic A. Delano,  
2244 S. Street, N. W.,  
Washington, D. C.

My dear Mr. Delano:

Our mutual friend, Mr. Hamlin, has been good enough to hand me your letter to him under date of the 8th instant and also the letter of Dr. Nourse to you under date of the 5th, both with reference to the recent "suggestion" which I offered as a temporary expedient remedy designed to help out in the present emergency. Mr. Hamlin has asked me to write you a letter explaining something of the background which prompted me to offer the suggestion and something in further explanation of the proposal itself. This, of course, accounts for my addressing you now.

The idea came to me on Thanksgiving Day while I was on the train traveling between Chattanooga and my home town, Memphis. I saw considerable cotton unpicked in the field and large quantities in various places of storage at different points along the line and it seemed that the situation presented, to my mind at least, an opportunity for getting some debts settled if the creditors were in the proper frame of mind and had a real anxiety to get liquidation promptly and effectively.

So, on arriving in Memphis and laying the matter before my associates in the wholesale dry goods store, I instructed them to attempt to collect some of our outstanding credits that were past due by accepting cotton at a premium over the market price in payment for the accounts, the premium to vary in accordance with the age of the account and also the hazard involved in its collection. The thought seemed to meet with hearty approval and our organization at once began to put it into effect. I do not know to what extent it has been successful or how far they have gone in overcoming the one obstacle which may hamper the effectiveness of the plan, and that is the fact that most cotton is produced under a mortgage or lien system which takes away from the producer almost his entire right to have a voice in the disposition of his product. This I think we can work out some way, somehow, but in any event our people are trying it out.

While in our store some of the traveling men who happened to be spending Saturday in town regaled me with varying stories of the depression throughout the territory served by our organization. Many were the reports of an unwillingness to pay taxes at all and one or two instances were recited where there was a concerted effort being made to organize against paying any taxes whatsoever, and that a sort of moratorium was gradually creeping over the trade territory growing out of the extremely low prices being paid for cotton, and especially in the rural districts. Their stories also

told of many school teachers and other public servants that have not been paid for months and months. Other stories had to do with the distressed selling of such cotton as was being marketed at prices far below what one would expect when reading the market reports low as they are in fact.

All of this caused me to develop the idea that towns, counties and states might well accept cotton in payment of taxes even though they allowed as much as 8 cents a pound for the cotton, then after warehousing it pledge the warehouse receipts to banks for loans say up to 5 or 6 cents a pound. The proceeds of these loans might then be used to take care of current expenses and a good deal of distress would be alleviated and certainly a very much better frame of mind engendered.

A further consideration entering into my thoughts on this subject was the fact that many good banks throughout the country are today almost literally starving to death because of an inability to find good, safe investments for their excess reserves. With the excess reserves ranging around \$500,000,000 and with the probability of a considerable increase following the turn of the year it seemed to me that there was a possibility of adjusting the plan, varying to meet the circumstances of course, whereby these reserves could be put to work and the good banks made happy. Good banks cannot continue to be good banks long unless they have earnings and you know and I know that is one of the major problems of the banker at the present time.

I had no thought whatsoever of fixing a price for cotton or any other commodity although perhaps a casual reading of my suggestion as it was written might lead one to believe that such an idea was in the back of my head. I am unalterably opposed to any sort of artificial attempts at price fixing or regulation. I believe in allowing nature to take its course, but in view of the fact that our present economic condition, particularly as it relates to cotton, is largely the result of artificial attempts to regulate or stabilize the price, I feel that this action is justified purely and simply as a temporary measure to be used in this emergency and in this extremity.

A word about the cost of producing cotton. I have spent my entire life very close to the producers of cotton and as a matter of fact have produced a considerable amount of it myself. I do not believe that any living man can tell accurately what it costs to produce cotton at any given time. I have contended for many years that practically every lock of cotton produced since the Civil War has been produced with labor under slave conditions. The old southern cotton plantations originally operated with slave labor shifted to the share cropping system after the Civil War simply and solely because of necessity. Necessity in this case was the mother of invention and was responsible for evolving the share cropping system out of the old methods of handling slave labor. In other words, the share cropping system has been nothing more nor less than a camouflage for slavery from the Civil War down to the present moment.

In the hill countries where perhaps the bulk of the cotton crop is made the farms are operated by white farmers and their families,

sometimes owners and sometimes tenants, but in practically all of the cases you will find the crop made largely by the women and little children who have no voice whatsoever in the matter of compensation for their employment. In this cotton growing hill country you seldom if ever find a boy who has grown too large for his father to handle. When he gets beyond the licking age he leaves the farm and finds something to do around a filling station or elsewhere in town. You don't find him in the cotton fields.

I feel that the situation is so acute throughout many sections of the cotton growing territory that something drastic, something unusual, something effectively must be developed and put into use at once, or at least promptly, otherwise a collapse may come at any time and in a form that would be terrible to contemplate.

I am especially interested as a member of the Federal Reserve Board in helping our member banks to find employment for their surplus or excess reserves and for this reason alone I think the suggestion I am offering makes it worthy of the consideration of those interested in the System, especially that part of it in the cotton growing territory.

Assuring you of my appreciation of your courtesy in reading this lengthy document and the suggestion itself, I am,

Yours very truly,



FREDERIC A. DELANO

1521 NAVY BUILDING  
WASHINGTON, D. C.

350 MADISON AVENUE  
NEW YORK CITY

Washington, D.C.,  
December 8, 1932.

*Personal*

My dear Charlie:

I read with a good deal of interest Mr. James' article entitled "A Suggestion for Relieving Agriculture, Especially Cotton Growers, By The Acceptance Of Payment In Kind For Obligations, Debts And Taxes From The Producers", and I passed it on to one of my friends in the Brookings Institution, which is studying problems of this kind very thoroughly. I am sending you Dr. Nourse's answer for your own private consideration. You may or may not want to pass it to Mr. James, but I am sending it to you as coming from a man who is a close student of these matters, and who has analyzed the effects pro and con.

Yours very sincerely,

Enclosure

Honorable Charles S. Hamlin,  
Federal Reserve Board,  
Washington, D.C.

*Frederic A. Delano*

Institute of Economics

of

The Brookings Institution

Washington, D. C.

E. G. NOURSE  
Director

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25 JACKSON PLACE

December 5, 1932

Mr. Frederic A. Delano  
2244 S Street, Northwest  
Washington, D. C.

Dear Mr. Delano:

Moulton has referred to me the memorandum from Mr. James of the Federal Reserve Board proposing "the acceptance of payment in kind for obligations, debts, and taxes from farm producers."

Anyone who is intimately informed as to conditions in agriculture today must concur in Mr. James' statements as to the gravity of the situation and the very unfortunate results which follow if the present stream of farm foreclosures and tax defaults is allowed to continue unchecked. Let us state the situation as being something like this. The price of the farmer's product in the commercial market is such as to enable him to meet only half of these fixed charges. We agree that this situation has become intolerable. Mr. James proposes that it be met by legislation which would, let us say, double the power-in-exchange of these farm commodities. He bases his formula for such price fixing on a supposedly known or ascertainable cost of production. This, however, is a dubious procedure and not an essential feature of the plan. The adjusted price, even if based on some sort of cost-of-production data, would be in fact arbitrary and set at a figure which would enable farmers to meet their fixed obligations. It would avoid the demoralization of upsetting the present system of land ownership but would have the disadvantage of leaving these fixed charges to be met in the future.

The other alternative is to scale down the obligations either temporarily or permanently to a point where farmers can meet them out of the proceeds derived from the sale of their commodities in the commercial market. The former method would seem to be preferable if we expect a general and fairly early recovery in the prices of farm products. The latter would be more desirable if we are convinced that recovery will be slow and perhaps partial only. Personally I am a good deal inclined to the latter view.

Mr. James' memorandum does not follow the working out of his proposed remedy through to its ultimate conclusion. The implication seems to be that those who receive such payments in kind would store them and hold to such a time when they could dispose of them without

loss. This simply amounts to a stabilization operation essentially similar to that experimented with by the Federal Farm Board, but on a decentralized bases through governmental, corporate, and individual agencies. Personally I doubt that it would be either feasible or wise to attempt such a speculative holding operation at the present time. He says: "Money is available in unlimited quantities for cash advance on warehouse receipts at a large percentage of the current value of any commodity on lowest rates of interest." Even such a credit extension would presumably not amount to more than a quarter or a third of the enhanced values at which such commodities would have to be accepted under the proposed plan. It would thus mean the carrying of a very substantial part of the burden by the creditor agencies, which would be a difficult matter in the case of government taxing bodies and large mortgage holders. If, on the other hand, these goods are accepted at the fixed price and sold for what they will bring in the open market, we would have the creditor agency arriving at the same place that he would be in scaling down his charge to the amount which the debtor can pay in view of current market prices. I believe that we would be moving more surely toward a real adjustment of present difficulties if our efforts were directed toward securing such commutations rather than toward setting up the type of price fixing (in certain fields) proposed in the memorandum.

Sincerely yours,

*E. F. Hoover*

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