The Papers of Charles Hamlin (mss24661)

368_01_001-	Hamlin, Charles S., Scrap Book – Volume 243, 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 243 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 243

Page 3 - Letter to Senator Glass from Secretary of Treasury re his bill.
Page 5 - Memo to Mr. Goldenweiser from Mr. Hamlin re H.R. 3835.
Page 11 - Memo to Board from Mr. Smead re classification of deposits by size of accounts.
Page 13 - Letter to Mr. Morrill from Mr. James Simpson of Marshall Field's re two Gov. bond transactions.
Page 15 - Draft of executive order.
Page 17 - Memo to Mr. Hamlin from Mr. Goldenweiser re devaluation of gold dollar.
Page 19 - Memo to Mr. Hamlin from Mr. Goldenweiser re effect of prices on the issuance of $3,000,000,000 of irredeemable paper currency.
Page 23 - Memo to Mr. Goldenweiser from Mr. Longstreet re the reduction in gold content of currencies.
Page 25 - Earnings and Expenses of Federal Reserve Banks, May 1933.
Page 27 - Memo to Mr. Hamlin from Mr. Goldenweiser re speech of Senator Thomas, as of April 24, 1933.
Pages 42 & 43 - Resolutions of Open Market Committee.
Page 48 - Federal Advisory Council minutes.
Page 51 - Memo to Mr. Hamlin from Mr. Goldenweiser re gold content and exchange stabilization.
Page 53 - Preliminary Memo for the Executive Committee of the Open Market Policy Conference, May 23, 1933.
Page 57 - Memo to Mr. Hamlin from Mr. Rhodes re balancing of the French Budget in 1926.
Page 71 - Memo to Board from Mr. Smead re classification of deposits by size of accounts.
Page 99 - Memo to Board from Mr. Vest re views of Federal Reserve Banks regarding eligibility of paper of finance companies for rediscount.
Page 101 - Confidential - Memo to Mr. Morrill from Mr. Van Fossen re Direct Loans to Individuals, etc.

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to GLASS

Im BH

2 East 67th Street
New York, April 9, 1933

My dear Senator:

I have been over the bill you were kind enough to hand me, and pending an opportunity to talk with you I should like the privilege of indicating a few major suggestions as to a few sections of the bill which seem to me important. I shall not refer to any technical details, assuming that on them you are arranging to get the suggestions of the Federal Reserve Board.

The point I feel most strongly about is getting prompt and decisive action of the Federal Reserve System. That has been its greatest weakness. I think this difficulty would be made worse instead of better by removing the Secretary from the Board, and I am opposed to that change.

I believe the power of the System to act promptly and effectively would also be weakened by the adoption of the proposal for the Open Market Committee in Section 8. This would make mandatory a cumbersome piece of machinery. I believe that on this point the suggestion made last spring by the Federal Reserve Board is preferable.

It also seems to me that Section 10 sets up too much red tape. I should think that adequate supervision over foreign operations would be assured if the section were terminated in the middle of line 22 on page 36 of the bill.

Turning to the problem of preventing excesses in the security operations of banks, I am in complete sympathy with the proposal that these operations should be subjected to proper control. In imposing this control there seem to me two dangers to avoid. One is that we should go so far as to destroy the machinery of the market for new securities at a time when we need that machinery as part of the program of business recovery. I do not

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believe it would be wise to remove, as would Sections 5 and 10, the power of member banks to underwrite issues of investment securities. I question also whether Sections 30 and 31 would not be too damaging to the new security market.

Investment Securities

The second danger upon this point is that restrictive measures might be carried so far as to constitute a high degree of paternalism and really place on the Reserve System the responsibility for the detailed operations of member banks. I think the bill goes too far in this direction in Sections 3 and 7.

Secs 3 and 7

The plan for the insurance of bank deposits does not seem to me satisfactory in its present form. It does not seem to me to provide enough money for 100 per cent guaranty, and such a proposal would ruin the non member banks which could not qualify for membership. I think I understand something of your difficulties with this problem but have as yet no definite alternative to suggest.

Insurance Bank deposits

I am doubtful about prohibiting payment of interest on demand deposits by law. It would seem to encourage evasions of the time deposit laws, and I am afraid would disturb the banking system at a time when it is rather delicate.

Interest on demand deposits

These suggestions are offered in the same friendly spirit which I know has led you to invite them. We have made so fine a start in dealing with our problems, thanks in no small measure to your splendid help, that I am especially anxious that nothing may be done which would possibly retard the process of recovery.

Sincerely yours,

Secretary of the Treasury.

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

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 11, 1933.

To Dr. Goldenweiser

Subject:

From Mr. Hamlin

2—8495

Dear Dr. Goldenweiser:

I am enclosing a copy of a report, dated April 5, 1933, made by Senator Smith to accompany H.R. 3835. At the end of this report, Senator Smith makes the following statements. Will you be good enough to check them up, and give the answers very briefly:

1. The policy of deflation of commodity prices and farm values inaugurated in 1920 still persists.

2. With the ending of the bank holiday, the thousands of closed banks have resulted in the temporary, if not permanent, destruction of additional billions of what we call and use for money.

3. Such holiday resulted in the further withdrawal from circulation of all gold and gold certificates.

4. During the past three weeks, the Federal Reserve System has disposed of bills and United States Government securities in the total sum of over 1 billion dollars.

5. During the same period Federal reserve credit has been contracted in a sum of 956 millions and the money in circulation has been deflated in the total sum of 1185 million dollars.

6. No relief is possible for agriculture until the policy of deflation is not only checked but reversed, and a substantial sum of actual money is admitted, and if need be, forced into circulation.

7. It is not sufficient to have an ample supply of currency in the vaults of the Federal reserve banks, nor in the vaults of the national banks, state, and private banks of the country.

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8. With 25 millions of bank credit - deposit money - canceled and destroyed, and with the remainder frozen and unobtainable, with much of the actual currency outside the Treasury hoarded and inactive, with over 40 nations of the world enjoying a lower production cost than the United States by reason of their depreciated currencies, the people, without either money or credit, are stopped, business is at a standstill, and deflation not only continues but is accentuated.

9. The Federal Reserve System has failed. Some 10 other Federal agencies have been created to assist in making Federal credit available to those needing and demanding assistance.

10. We report that with our present restricted volume of bank credit and with a like restriction of actual money in practical circulation - owing to hoarding - we recommend that existing policies of selling bills, United States securities, and deflating the currency and credit be reversed, and that a sufficient volume of money be placed in circulation to replace the currency hoarded and to supplement the bank credit or deposit money now frozen in the banks of the country.

11. Agriculture does not demand a 50-cent dollar or an unsound dollar, but does protest the retention of a 200-cent dollar. A dollar which fluctuates in purchasing power from 50¢ in 1920 to 200¢ in 1933 is neither a sound nor an honest dollar.

12. Agriculture demands that the farmer should have a 100-cent dollar; that the purchasing power of the dollar should be fixed and established at that point...... and that when such value is once fixed it should be stabilized at such value.

Sincerely yours,

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COPLEY AMORY
1811 QUE STREET
WASHINGTON, D. C.

Calendar No. 17

73d Congress *1st Session*	SENATE	Report No. 16

See pages 6-7

RELIEVE THE EXISTING NATIONAL ECONOMIC EMERGENCY BY INCREASING AGRICULTURAL PURCHASING POWER

March 13 (calendar day, April 5), 1933.—Ordered to be printed

Mr. Smith, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany H. R. 3835]

The bill as reported is practically the same as the bill that came from the House with, perhaps, the important amendment eliminating sheep and cattle from the enumerated farm commodities that are so enumerated in the House text.

This bill, with the exception of part 1, title 1, was drafted by the Department of Agriculture and is practically unchanged from the bill as presented to Congress. Considerable hearings were had by the Senate committee, but on account of the desire of the administration that no change be made the bill is presented to the Senate in practically an unchanged form except that there is added to it title 3 which gives an alternative to what is known as title 2. Both title 2 and title 3 attempt to lay down a principle by which the price of farm products may be raised.

Title 4 is the farm-mortgage plan which has been attached to this bill, as it pertains to farm relief. I think it well to set forth here the message of the President that accompanied the presentation of the bill to Congress:

> At the same time that you and I are joining in emergency action to bring order to our banks, and to make our regular Federal expenditures balance our income, I deem it of equal importance to take other and simultaneous steps without waiting for a later meeting of the Congress.
>
> One of these is of definite, constructive importance to our economic recovery. It relates to agriculture and seeks to increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities; and at the same time greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.
>
> Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture.

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If a fair administrative trial of it is made and it does not produce the hoped-for results I shall be the first to acknowledge it and advise you.

The proposed legislation is necessary now for the simple reason that the spring crops will soon be planted and if we wait for another month or 6 weeks, the effect on the prices of this year's crops will be wholly lost.

Furthermore, by action at this time the United States will be in a better position to discuss problems affecting world crop surpluses at the proposed world economic conference.

Part 1, title 1 of the bill is that which was passed at the last session of Congress and was not signed by President Hoover. This part provides that cotton financed wholly or in part by the Government and now under control of the Federal Government shall be sold to the Secretary of Agriculture who is directed to sell on time this cotton to cotton farmers at the present market price in lieu of their producing a like amount in 1933. This cotton thus sold to the farmers and held by the Secretary of Agriculture in trust for them is to be disposed of by March 1, 1935. After deducing costs to the Government, the profits, if any, are to be given to the farmer who has contracted to receive this cotton and reduce production. The purpose of the plan is to reduce the surplus and at the same time and under the same contract to reduce production, the inducement to the farmer being that he gets, below the cost of production, what cotton he takes from the Government, and by reducing his production to a like extent he stands a chance of getting an advanced price on what he does produce and what he takes from the Government.

Part 2 is complex. This title, as said before, was prepared by the Department of Agriculture and was introduced as prepared for consideration of the House of Representatives and the Senate. There are two principles involved in part 2, namely, the leasing of land by the Government to reduce production, and the other the so-called allotment plan to increase prices by taxing the processer of the raw material.

The first principle, the leasing of the lands, is a proposal that the Government is to pay the owner for the land thus leased. It is not clearly defined in the bill what shall be the character of the land thus leased but it is to be assumed that the Secretary of Agriculture in leasing these lands shall lease such land of such a productive nature as would by removal from production decrease properly the production of the commodities sought to be reduced. In order to obtain funds to pay the farmer for lands thus leased, it is proposed under the leasing provision of this part to levy and collect what is known as a processing tax from the processer of farm products which tax shall be regulated by the Secretary of Agriculture to such amounts as shall be necessary to pay for lands thus leased.

The owner of the land is to be allowed to plant on these leased lands such crops as do not enter into market competition with other staple agricultural crops. The owner, however, can plant such crops if they are for his individual or farm use. The amount of the land estimated to be under cultivation in America is 350,000,000 acres. It has been suggested that the amount necessary to be leased or taken out of cultivation in order to bring about the proper reduction in production would be 50 or 60 million acres. Therefore, the aggregate amount of taxes to be levied and collected from the processer would be an amount sufficient to pay rent on this amount of land. Just what amount would be the rental per acre is not specified in the bill.

The second principle is what is known as the allotment plan. This plan provides that there should be a tax levied and collected on the processor sufficient to bring the price of the farm products domestically consumed up to a parity that existed between farm prices and the price of the commodities that the farmer has to buy, between 1909 and 1914. This tax levied and collected from the processor shall be added to the price that the farmer is now receiving for his products, thus giving him for that part of his products domestically consumed a price representing the parity that existed between what he sold and what he bought between 1909 and 1914. To illustrate, if cotton during the period selected for parity would bring him 12½ cents per pound, a tax would be levied upon the processor which, when levied and collected and added to the present current price of cotton, would bring the price on cotton domestically consumed up to 12½ cents per pound, the exportable surplus, of course, to be disposed of at the world's price for cotton. The present price of cotton is around 6 cents per pound, therefore, the ultimate tax upon the processor would be around 6 cents per pound, or $30 per bale for cotton that is domestically consumed.

In the case of wheat the same principle is applied and also to all the commodities enumerated and contained in this bill. This is the purpose of this proposed legislation as it pertains to the allotment plan. This plan, however, provides that in levying and collecting this tax to attain the parity price, due regard shall be given to the effect that such a tax and such a rise in price will have upon the consumption of the product. The Secretary of Agriculture is given the power to alter such tax from time to time as he may deem proper to meet the effect that the tax may have upon the consumption of the commodity. He is to take into consideration the effect that such a tax upon the given commodity may have in increasing the consumption of competing commodities as well. To effectuate the principles of the allotment plan the Secretary of Agriculture is empowered to enter into market agreements with processers and associations of producers and other agencies engaged in the handling in the current of interstate and foreign commerce of any agricultural commodity or product thereof after due notice and opportunity for hearing to interested parties. He is also authorized at his discretion:

(3) To issue licenses permitting processors, associations of producers, and other agencies to engage in the handling, in the current of interstate or foreign commerce, of any basic agricultural commodity, or product thereof, or any competing agricultural commodity or product thereof. Such licenses shall be subject to such terms and conditions, not in conflict with existing acts of Congress or regulations pursuant thereto, as may be necessary to eliminate unfair practices or charges that prevent or tend to prevent the effectuation of the declared policy and the restoration of normal economic conditions in the marketing of such commodities or products and the financing thereof. The Secretary of Agriculture may suspend or revoke any such license, after due notice and opportunity for hearing, for violations of the terms or conditions thereof. Any agency engaged in such handling without a license as required by the Secretary under this section shall be subject to a fine of not more than $1,000 for each day during which the violation continues.

(4) To require any licensee under this section to furnish such reports as to quantities of agricultural commodities or products thereof bought and sold and the prices thereof, and as to trade practices and charges, and to keep such systems of accounts, as may be necessary for the purpose of this act.

The Secretary of Agriculture is authorized, with the approval of the President, to make such regulations with the force and effect of law as may be necessary to carry out the powers vested in him by this act.

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Still further quoting:

The Secretary of the Treasury is authorized to make such regulations as may be necessary to carry out the powers vested in him by this act, including regulations, with the force and effect of law establishing conversion, factors for any commodity and article processed therefrom to deremine the amount of tax imposed with respect thereto, and defining processing with respect to any commodity.

The action of any officer, employee, or agent in determining the amount of and in making any rental or benefit payment shall not be subject to review by an officer of the Government other than the Secretary of Agriculture and the Secretary of the Treasury.

The bill provides that the Secretary of Agriculture may appoint such officers and employees subject to the provisions of the Classification Act of 1923 and acts amendatory thereof and such experts as are necessary to execute the functions vested in him by this act, and that the Secretary may make such appointments without regard to the civil service law or regulations.

Thus will be seen the broad and drastic powers given to the Secretary of Agriculture and the Secretary of the Treasury to administer this act. The allotment plan also provides that in order to protect the farmer and the processor there shall be placed in addition to the tariffs then existing on that product an increase in such tariff equal to the tax imposed upon the processor. To illustrate, if the tariff on wheat is 42 cents per bushel and the tax imposed on the processor in order to raise the price of wheat to the parity is 48 cents per bushel, then the tariff on imported wheat becomes 90 cents per bushel. Where there is no tariff on an article the tariff shall be raised equal to such tax. To illustrate, there is no tariff on upland cotton, and if the tax should be 4 or 5 cents per pound, then the tariff on such cotton imported would be 4 or 5 cents per pound or $20 to $25 per bale.

In relation to the allotment provision as to cotton, it might be well to indicate what would be the result of the application of this principle at the present time on the average prices of cotton. About 50 percent of the cotton produced in America is consumed domestically and 50 percent exported. The price then for that domestically consumed would be about $60 per bale and $30 per bale for that exported, which would be an average of $45 per bale or 9 cents per pound to the farmer.

Part 3 is a proposition to obtain the cost of production and has no reference to any parity, but empowers the Secretary of Agriculture at his discretion to estimate as nearly as practicable the cost of production and to fix this price on the commodities herein enumerated for the percentage of that commodity which is used in domestic consumption and also to protect this price, thus fixed on the part of the commodity domestically consumed as against competing articles as is provided for under the provisions of part 2.

Title 2, part 1, is known as Agricultural Credits, and is an amendment to the Farm Loan Act. An analysis is hereto attached explanatory of this, which analysis was prepared and given to the committee by the department that drafted this provision.

(The analysis referred to is as follows:)

[Analysis of S. 1110]

TITLE I

1. For 2 years authorize Federal land banks to issue bonds at interest rate not to exceed 4 percent, the interest of which is guaranteed by the United States. Maximum amount to be $2,000,000,000. Proceeds to be used to make new mortgages or refinance existing mortgages (sec. 1).

2. In order to reduce and refinance existing farm mortgages, Federal land banks are authorized to exchange bonds for or to buy outstanding farm mortgages on best terms possible, passing savings in principal and interest on to farmer borrowers (sec. 2).

3. Maximum interest rate to borrowers on old and new Federal land-bank mortgages not to exceed 4½ percent for 5-year period. Appropriation of $15,000,000 to be used to compensate the Federal land banks for loss in interest during first year (sec. 4).

4. Neither old nor new borrowers from Federal land banks required to pay installments on principal of mortgages for 5-year period (sec. 4).

5. For 5 years authorize Federal land banks to grant necessary extensions of payments to deserving old and new borrowers. Such extensions to be financed by loans from the United States. An appropriation of $50,000,000 authorized for this purpose for ensuing fiscal year (sec. 3).

6. Raise maximum limit of Federal land bank mortgage loans from $25,000 to $50,000 on approval of Farm Loan Commissioner (sec. 5).

7. Authorize Federal land banks to make direct loans to farmer-borrowers where no local farm loan associations are available on conditions that farmer agrees to join such association when there are enough borrowers in the community to establish one. Interest rate on direct loans to be one half percent higher than on loans through local associations but rate to be reduced when borrower joins local (sec. 6).

8. Authorizes receivers for joint-stock land banks to borrow from Reconstruction Finance Corporation on security of receivers' certificates in order to pay taxes on real estate (sec. 7).

TITLE II

1. Prohibits joint-stock land banks from issuing tax exempt bonds or making new farm loans except in connection with refinancing of existing loans (sec. 201).

2. Authorizes Reconstruction Finance Corporation to loan up to $100,000,000 to joint-stock land banks at 4 percent on security of first mortgages, provided

(a) Joint-stock land bank reduces interest rate on mortgages to 5 percent per annum.

(b) Agrees not to foreclose on mortgage for 2-year period except in unavoidable circumstances.

These provisions will make it possible for joint-stock land banks to liquidate their affairs in an orderly manner giving consideration to farmer-borrowers and to security-holders (sec. 202).

TITLE III

Allocates $200,000,000 of Reconstruction Finance Corporation funds for loans through the Farm Loan Commissioner for the following purposes:

1. To enable farmer to redeem and/or repurchase farm property lost through foreclosures.

2. To reduce and refinance junior obligations.

3. To provide working capital.

These loans to be under supervision of Farm Loan Commissioner using machinery of the Federal land banks. Loans to be made direct to farmers. No loan in excess of $5,000. Total of first and second mortgage, if any, not to exceed 75 percent of normal value of farm and farm property. Repayment in 10 equal annual installments plus interest at 5 percent, but no payment on principal required for first 3 years.

Principal purpose of these loans to enable farmers to buy back foreclosed farms and to make small, reasonably safe, second mortgages to refinance junior liens and unsecured debts on a scale-down sufficiently drastic to permit good farmers to pay out (sec. 301).

TITLE IV

Authorizes Reconstruction Finance Corporation to make loans not to exceed $50,000,000 to drainage, levee, irrigation, and similar districts to reduce and refinance indebtedness. Loans for period not to exceed 40 years to be secured

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by bonds issued by borrower which are lien on real property or on the assessment of benefits. Such loans to be made only on condition that the borrower shall reduce the indebtedness of the users of such project in amounts corresponding to reduction of its debt. No loan to be made until after appraisal has been made of the property, taking into consideration average market price of bonds over 6-month period ending March 1, 1933, and the economic soundness of the project (sec. 401).

The committee also directed that there be placed in this report a statement as to the necesstiy of an expansion of the currency and the absolute necessity for an increase in commodity prices. The statement as prepared and adopted by the committee is attached hereto, as follows:

DEFLATION MUST BE CHECKED

The policy of deflation of commodity prices and farm values inaugurated in 1920 still persists. The first groups to feel the effects of this policy were farmers and stockmen. Thereafter in turn merchants, factories, wage earners, and now railroads; life insurance companies and banks are tottering, and unless the foundation of prosperity—agriculture—is repaired all must fall.

In reporting this bill favorably we feel that we should advise the Senate that, in our opinion, the bill will not alone afford the relief which the farmer must have to enable him to survive economically.

If we concede that the bill reported will bring about all the benefits claimed—agricultural price parity with other commodities—yet we are forced to the conclusion that such limited relief will not enable the farmers to meet their fixed charges such as taxes, interest, debts, and necessary expenses.

Experts, students of the trend of developments and influences, are practically agreed that the deflation process is resumed after the recent bank holiday.

Prior to the bank holiday some 12,000 banks failed, resulting in the destruction of some 20 billions of bank credit or deposit money. With the ending of the holiday, additional thousands of banks failed to open, resulting in the temporary if not permanent destruction of additional billions of what we call and use for money.

Such holiday resulted in the further withdrawal from circulation of all gold and gold certificates.

During the past three weeks, the Federal Reserve System has disposed of bills and United States Government securities in the total sum of over $1,000,000,000; reserve bank credit has been contracted in a sum of $956,000,000 and the money in circulation has been deflated in the total sum of $1,185,000,000.

We report these facts and state that no substantial relief is possible for agriculture until the policy of deflation is not only checked but reversed and a substantial sum of actual money is admitted and, if need be, forced into circulation.

We report that it is not sufficient to have an ample supply of currency in the vaults of the Federal reserve banks, and that it is not even sufficient to have an ample supply of currency in the vaults of the national, State, and private banks of the country.

With some 25 billions of bank credit—deposit money—canceled and destroyed, and with the remainder frozen and unobtainable; with much of the actual currency outside the Treasury hoarded and inactive, with over 40 nations of the world enjoying a lower production cost than the United States by reason of their depreciated currencies, the people, without either money or credit, are stopped, business is at a standstill, and deflation not only continues but is accentuated.

ONE HUNDRED CENT DOLLAR DEMAND

The Federal Reserve System, created to serve and promote the best interests of the people, commerce and industry, while pretending to be trying to keep sufficient money and credit available, has failed. Some 10 other Federal agencies have been created to assist in making Federal credit available to those needing and demanding assistance.

We report that with our present restricted volume of bank credit and with a like restriction of actual money in practical circulation—owing to hoarding—we recommend that existing policies of selling bills, United States securities and deflating the currency and credit be reversed and that a sufficient volume of money be placed in circulation to replace the currency hoarded and to supplement the bank credit or deposit money now frozen in the banks of the country.

DOLLAR MUST BE STABILIZED

Agriculture demands an adequate supply of honest and sound money and reports that at this time we have neither.

Agriculture does not demand a 50-cent dollar or an unsound dollar, but does protest the retention of a 200-cent dollar. A dollar which fluctuates in purchasing power from 50 cents in 1920 to 200 cents in 1933 is neither a sound nor an honest dollar. Dollars so scarce as to be obscure, thereby forcing into existence systems of barter, trade, and scrip, are not adequate.

Agriculture demands that the farmer should have a 100-cent dollar; that the purchasing power of the dollar should be fixed and established at that point to serve the best interests of the people, trade, commerce, and industry, and that when such value is once fixed it should be stabilized at such value.

We report further that no just, substantial, reliable, or permanent relief can be provided agriculture or any other industry until the money question is considered and adjusted.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 13, 1933

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

GPO 2—8495

I am sending you some comments on the statement by Senator Smith, accompanying H. R. 3835. The comments are numbered according to the numbering of the statements given in your memorandum of April eleventh.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 13, 1933

To Mr. Goldenweiser

Subject: Comments on Report of April 5, 1933 made by Senator Smith accompanying H.R.3835

From Miss Joy

O.J.

1. There has been no deliberate policy of deflation of commodity prices and farm values. Commodity prices had risen sharply in world markets during the war, as a result of war-time demands, decreased production in some of the belligerent countries, and inflation through credit based on government securities in many nations. The decline in commodity prices after the post-war boom of 1920 was an inevitable sequel to this over-expansion, as war demands ceased, war financing was over, and production facilities were turned to peace-time uses.

Farm land values declined drastically after 1920 with the decline in agricultural prices and in agricultural income following a period of war-time expansion. That decline is still going on, in consequence of recent declines in agricultural prices and farm incomes, and will probably persist, since there is ordinarily a two-year lag of farm land values behind agricultural prices.

Changes in wholesale prices in the United States are shown below:

(1926 = 100)

	Aug. 1914	May 1/ 1920	July 2/ 1929	Feb. 1933	Percent changes: Aug. 1914 to May 1920	Percent changes: May 1920 to July 1929	Percent changes: July 1929 to Feb. 1933
All commodities	70	167	97	60	+140	- 42	- 38
Farm products	73	170	108	41	+134	- 37	- 62
Foods	69	147	103	54	+114	- 30	- 48
All other commodities	66	171	92	66	+159	- 46	- 28

1/ Post-war peak.
2/ Peak of prices in 1929.

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2. On March 29, the latest date for which figures are available, approximately 5,200 banks which were open before the banking holiday, had not received unrestricted licenses to reopen. Of these, 1,141 were national banks and 166 state member banks. These banks had deposits of over $2,700,000,000 on December 31, 1932, and probably considerably less than that immediately before closing. There is no reliable estimate of deposits tied up in closed or restricted non-member banks, but it probably exceeds $1,000,000,000.

The freezing of these deposits, and the inability of the depositors, because of lack of funds, to make their usual plans and purchases will unquestionably be a deterrent to business, particularly in bankless communities.

3. Gold coin and gold certificates were hoarded before the holiday and have since been returned to the Federal reserve banks and the Treasury in large volume, in response to the President's proclamation and to the provisions of the Emergency Bank Act, as shown in the following table:

GOLD COIN AND GOLD CERTIFICATES IN CIRCULATION

(In millions of dollars)

	Feb. 1, 1933	March 4, 1933	April 5, 1933	Change: Feb. 1 to Mar. 4, 1933	Change: Mar. 4, to Apr. 5, 1933
Gold coin	480	626	365	146	-261
Gold certificates	591	763	380	172	-383

This return is desirable, not harmful, since it concentrates gold in the reserve banks and in the Treasury, where it is more effective than in private hoards, in which it performs no useful function. In particular, its return has strengthened the reserve position of the reserve banks. Gold certificates in

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active use by business houses and individuals were replaced by other forms of currency, and public demand for currency has been adequately met.

4. Published statements of the reserve banks for Wednesday dates show that in the three weeks from March 8 to March 29, the period used in the report, changes in reserve bank credit were as follows:

	March 8	March 29	Change from March 8 to March 29
Total reserve bank credit	3,644	2,688	-956
Bills discounted	1,414	545	-869
Bills bought	417	310	-107
U.S. Gov't. securities	1,881	1,838	- 43
Total bills & securities	3,712	2,693	-1,019

In the period discussed, there was a decline of more than one billion dollars in bills and securities. However, these have not been "disposed of" in the sense in which the phrase is used. The large part of the decline -- $869,000,000 -- was in bills discounted for member banks, which were at a level of $545,000,000 on March 29. This reduction in their indebtedness to the reserve banks, which takes place on their own motion, was made possible by a return of currency from hoarding, and is an indication of the lifting of pressure from the member banks. It is a step in the direction of making credit more easily available to the banks' customers. Sales of securities, on the reserve banks' own motion, were small, the decline amounting to only $43,000,000 in the period.

Since March 29 there have been further declines in holdings of bills and securities.

5. See (4) for Federal reserve credit.

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In the three weeks from March 8 to March 29 money in circulation declined by $1,185,000,000 and by April 5, the latest date for which figures are published, $1,277,000,000 had been returned. Unquestionably, most of this came out of private hoards and from the vaults of banks. The return does not represent "deflation" in any sense.

6. Currency cannot be forced into circulation by the reserve banks, which are agencies for providing the public with the currency it requires. If money is to be "forced into circulation" it will probably have to be done through direct governmental expenditures, long sustained.

Relief for agriculture is too large a question to be handled so simply. Some relief can be had through scaling down of costs and charges -- reduced taxes and aggregate interest charges, the composition of mortgages and other indebtedness, as provided for under the amendments to the Bankruptcy Act passed in the last session of Congress, etc.

7. An ample supply of currency is in itself not sufficient for business revival, which is primarily a matter of industrial reorganization, rather than of banking or currency.

8. This statement is inaccurate. In June, 1929, before the depression began, all banks in the United States had deposits of about $54,000,000,000, exclusive of interbank deposits. By June 30, 1932, they had declined to $42,000,000,000, a decline of $12,000,000,000, partly as a result of bank suspensions and withdrawals for hoarding, but largely in consequence of reduced volume of loans accompanying smaller volume of business. With lower prices and smaller business volume a smaller amount of commercial credit, in dollars, is required. Since June, 1932, there has been a further decline in bank deposits, but the amount is not known accurately because of the absence of a

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recent call report for member banks and of figures for nonmember banks. It probably does not exceed $4,000,000,000, including deposits tied up in banks that have since been closed or are on a restricted basis.

The actual distribution of the $6,260,000,000 of United States currency outside the Federal reserve banks and the Treasury on April 5 is not accurately known. Probably as much as $2,000,000,000 was hoarded, another $1,000,000,000 was in the vaults of banks -- a somewhat larger amount than usual -- and a considerable amount has long since been lost or destroyed. The fact that a comparatively small volume of currency is actually in active use is the result, not the cause, of depression.

9. Other credit agencies created "to assist in making Federal credit available to those needing and demanding assistance" are as follows:

Reconstruction Finance Corporation
Federal Home Loan Banks
Federal Land Banks and Federal Farm Loan Board
Department of Agriculture; Seed Loan Office; Crop Production Loan Office
Federal Farm Board
Federal Intermediate Credit Banks
U. S. Treasury: Loans to Farmers

10. Credit is not being deflated by the Federal reserve system. The recommendation in this report is for inflation, through means not stated.

11-12. The purchasing power of the dollar, as measured by the index of wholesale prices of the Bureau of Labor Statistics, is now 167 cents (February, 1933) as compared with 60 cents in May, 1920, when prices were at their highest point for post-war years. In this computation the year 1926 is used as 100. On the same basis, the dollar was worth 147 cents in 1914.

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Federal Reserve Bank of St. Louis

Mr. Hamlin

June 12, 1933.

TO: Federal Reserve Board

Classification of deposits by size of accounts.

FROM: Mr. Smead

CONFIDENTIAL

Under date of June 2d we gave the Board a memorandum with respect to the classification of deposits on May 13, of licensed state bank members, by size of accounts. Corresponding figures for licensed national banks have now been furnished by the Comptroller of the Currency for the Board's confidential use, and following are summaries of these data covering (a) all licensed member banks, (b) licensed national banks, and (c) licensed state bank members as of May 13:

Size Group	Number of accounts	Per cent of total number of accounts	Amount of deposits	Percent of total deposits	Average size of accounts
5500 LICENSED MEMBER BANKS - TOTAL	30,556,103	100.0	$23,527,390,000	100.0	$770
Deposit accounts of-					
$2,500 or less	29,482,384	96.5	5,580,327,000	23.7	189
$2,501 to $5,000	569,833	1.9	1,912,132,000	8.1	3,356
$5,001 to $10,000	269,903	.9	1,840,791,000	7.8	6,820
$10,001 to $50,000	187,115	.6	3,720,403,000	15.8	19,883
Over $50,000	46,868	.15	10,473,737,000	44.6	223,473
4836 LICENSED NATIONAL BANKS - TOTAL	22,476,727	100.0	14,909,352,000	100.0	663
Deposit accounts of-					
$2,500 or less	21,748,754	96.8	3,983,711,000	26.7	183
$2,501 to $5,000	399,014	1.8	1,324,300,000	8.9	3,319
$5,001 to $10,000	180,575	.8	1,228,618,000	8.2	6,804
$10,001 to $50,000	120,028	.5	2,366,331,000	15.9	19,715
Over $50,000	28,356	.13	6,006,392,000	40.3	211,821
664 LICENSED STATE BANK MEMBERS - TOTAL	8,079,376	100.0	8,618,038,000	100.0	1,067
Deposit accounts of-					
$2,500 or less	7,733,630	95.7	1,596,616,000	18.5	206
$2,501 to $5,000	170,819	2.1	587,832,000	6.8	3,441
$5,001 to $10,000	89,328	1.1	612,173,000	7.1	6,853
$10,001 to $50,000	67,087	.8	1,354,072,000	15.7	20,184
Over $50,000	18,512	.23	4,467,345,000	51.9	241,321

Aggregate deposits of the 5500 licensed member banks on May 13, as shown above, represent a reduction of about $2,500,000,000, or 10 per cent, from aggregate deposits held by the same banks on December 31, 1932.

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Federal Reserve Bank of St. Louis

See BH

Mr Hamlin

72 West Adams Street

Chicago

April 17, 1933

Chester Morrill, Esq., Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

I must first apologize for the seeming delay in acknowledging your letter of April 4th. The letter was addressed to me care of Marshall Field & Company, and for some unaccountable reason was not delivered to my present address until some time last week, when I was absent in the East. Having just returned to Chicago this morning, I am hastening to make acknowledgment and explanation of the delay.

In answer to the question in the last paragraph of your letter, I am enclosing a statement prepared by my secretary which covers all of the information that I can give you with respect to these two Government bond transactions. My recollection is very clear about the subscription for $3,000,000 of 3-1/8% Treasury Bonds dated June 15, 1931. It was at the end of an Executive Committee meeting that I told Mr. McKay to put me down for a subscription for that amount. Nothing was said, either before or after, about dividing it into six subscriptions of $500,000 each, and this was done entirely upon Mr. McKay's responsibility with no knowledge on my part of its having been done or by reason thereof that my allotments were increased. In any event, I should have lost less money, as you will see by the memorandum, had the original subscription gone in for one amount of $3,000,000, rather than having been divided up.

In the case of the second subscription for $1,500,000 of 3-1/4% Treasury Notes dated August 1, 1932, my recollection is that I signed the application for one amount and someone in the Federal Reserve Bank, on their own initiative, divided it into two subscriptions, one for $1,000,000 and one for $500,000. All of the latter bonds are still held by myself or members of my family.

If there is any further information that the Board desires, I will be only too happy to give it to them, or if they should desire my presence in Washington in connection with

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this or any other matters, notwithstanding the pressure of business I will arrange to come at a time that may be mutually convenient. I hope, however, that the statement made above clears the matter to the entire satisfaction of the Board.

Yours very truly,

(Signed) James Simpson.

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April 8, 1933

Memorandum re purchase at par of
$300,000 U. S. Treasury 3-1/8%
Bonds due June 15, 1949 (optional
June 15, 1946) on June 15, 1931.

Early in June, 1931, when at a Federal Reserve Bank meeting, this forthcoming issue was mentioned and you told Mr. C. R. McKay to enter a subscription for $3,000,000. At the time you were under the impression that it was to be entirely tax exempt, as everything that had been issued for some time previously had been entirely tax exempt.

Mr. McKay, on his own initiative, knowing that your family investments were in several accounts, put in 6 subscriptions for $500,000 each, against which were allotted $50,000 each, or $300,000. Had one subscription for $3,000,000 been put in, the allotment would have been 7%, or $210,000. In consequence, split-up of the subscriptions resulted in $90,000 more being allotted than would have been the case otherwise.

Shortly after the allotments were made known, it came to my attention that the bonds were entirely tax exempt to the extent of only $5,000 in any one account. Therefore, on July 1, 1931, there were sold $30,000 of these bonds from your account at par, $5,000 each to the three Chicago Boy's Trusts and to the Mrs. James Simpson, James Simpson, Jr. and John Simpson individual accounts.

This left $270,000 of the bonds in your account, which were sold the following November 5th and November 9th at 93 27/32 and 94 24/32 respectively.

On November 12, 1931, the three Chicago Boy's Trusts each sold their $5,000 at 94 24/32, and on the following January 13th, the other three individual accounts sold their $5,000 each at 85 16/32.

The total loss realized on the purchase and sale of the original $300,000 was as follows:

Account	Date Sold	Par Sold	Loss Realized
James Simpson	11/5/31	250,000	$15,390.62
" "	11/9/31	20,000	1,050.00
James Simpson,Jr.Trust	11/12/31	5,000	262.50
John McL. Simpson "	11/12/31	5,000	262.50
William Simpson "	11/12/31	5,000	262.50
Mrs. James Simpson	1/13/32	5,000	725.00
James Simpson, Jr.	1/13/32	5,000	725.00
John McL. Simpson	1/13/32	5,000	725.00
			$19,403.12

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Seven of the family accounts at one time or another owned these bonds, exclusive of three New York Boy's Trusts which could have bought $5,000 each but did not.

* * * * * * * * * * *

Memorandum re purchase at par of
$120,000 Treasury 3¼% Notes due
August 1, 1936 on August 1, 1932

You filled out subscription Circular 465, dated July 25, 1932, subscribing for $1,500,000 of these notes, and filed with the Federal Reserve Bank, who, on their own initiative, divided it into subscriptions for $1,000,000 and $500,000, against which the allotments were $80,000 and $40,000 respectively, a total of $120,000. Had one subscription been entered for $1,500,000., the allotment would have been $80,000. In consequence, the split-up resulted in $40,000 more of these notes being allotted than would have been the case otherwise.

$60,000 of the notes were immediately put into the John McLaren Simpson Chicago Trust and the same amount into the William Simpson Chicago Trust, and are still held therein.

(Signed) Earl Kribben

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april 20, 1933

EXECUTIVE ORDER

Relating to Foreign Exchange and the Earmarking

and Export of Gold Coin or

Bullion or Currency

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes," in which amendatory Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section and by virtue of all other authority vested in me, do hereby issue the following executive order:

1. Until further order, the earmarking for foreign account and the export of gold coin, gold bullion or gold certificates from the United States or any place subject to the jurisdiction thereof are hereby prohibited, except that the Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, may issue licenses authorizing the export of gold coin and bullion (a) earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements, (b) imported for reexport or gold in reasonable amounts for usual trade requirements of refiners importing gold bearing materials under agreement to export gold, (c) actually required for the fulfilment of any contract entered into prior to the date of this order, by an applicant who in obedience to the Executive Order of April 5, 1933 has delivered gold coin, gold bullion or gold certificates, and (d) with the approval of the President, for transactions which he may deem necessary to promote the public interest.

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2. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States or any place subject to the jurisdiction thereof to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States or any place subject to the jurisdiction of the United States, by any individual, partnership, association, or corporation within the United States or any place subject to the jurisdiction thereof; and the Secretary of the Treasury may require any individual, partnership, association, or corporation engaged in any transaction referred to herein to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such individual, partnership, association, or corporation either before or after such transaction is completed.

3. The provisions relating to foreign exchange transactions contained in the Executive Order of March 10, 1933, shall remain in full force and effect except as amended or supplemented by this order and by regulations issued hereunder.

4. Applicants who have gold coin, gold bullion or gold certificates in their possession, or who in obedience to the Executive Order of April 5, 1933 have delivered gold coin, gold bullion or gold certificates shall be entitled to licenses as provided in Section 8 of said Executive Order for amounts not exceeding the equivalent of such coin, bullion or certificates held or delivered. The Secretary may in his discretion issue or decline to issue any other licenses under said Executive Order, which shall in all other respects remain in full force and effect.

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5. Whoever willfully violates any provision of this Executive Order or of any rule, regulation or license issued thereunder may be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOHSE
April 20, 1933.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 21, 1933

To Mr. Hamlin

From Mr. Goldenweiser

Subject: Devaluation of the Gold Dollar

2—8495

The only memorandum prepared in this division for the Board or its members on the subject of the devaluation of the gold dollar was the one addressed to you on April 6, a carbon copy of which is attached. I am also sending you a copy of the Business Bulletin of the Cleveland Trust Company for February, and a copy of the National City Bank's Letter for February, which discuss inflation with particular reference to the reduction of the gold content of the dollar.

The February-March issue of the Midland Bank's Monthly Review which deals with this matter, and a number of chapters in manuscript of a study of devaluation prepared in the New York bank, are in Mr. Miller's hands at present. Perhaps you can obtain them from him before they are returned to this office.

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Federal Reserve Bank of St. Louis

April 6, 1933

Mr. Hamlin

Devaluation of the gold dollar

Mr. Goldenweiser

If the United States had no outside trade or business, a reduction in gold content of the dollar would have these effects: first, it would benefit the gold producers who could get twice as many dollars for their gold; and second, it would increase the excess reserves of the Federal reserve banks. It would have no direct or immediate effects on prices. But since we do have foreign trade, foreign exchange would rise in value. Americans would have to pay more for francs and pounds than they do now. Foreigners would acquire dollars for fewer units of their own currencies. This would make it profitable for foreigners to buy things in America and difficult for Americans to buy goods abroad. As a consequence there might be a tendency for a while for prices to rise. There would be no opportunity, however, to adjust prices as between raw materials and finished goods and hence difficult adjustments would have to be made as between wages and the cost of living. Furthermore, protective measures by foreign countries, in the form of exchange restrictions, quotas, etc., would inevitable result. There would ensue a world-wide competition in devaluation with disastrous consequences to trade.

When an adjustment was ultimately reached, debtors whose debts do not call for payments in gold dollarx of present weight and fineness would benefit to the extent that prices have advanced, while debtors whose obligations carried a gold clause would suffer.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bu

Date April 24, 1933

To Mr. Hamlin

Subject:

From Mr. Goldenweiser EAG

2—8495

You asked me to write you a brief memorandum on the effect on prices of the issuance of $3,000,000,000 of irredeemable paper currency.

I should say that there is no certainty that such an issue would have any effect on prices. If the currency is issued in payment of Treasury obligations, either current or in the redemption of existing securities, the effect would be to place that much currency in the hands of the public in excess of their needs. The currency would tend to come back to the member banks and ultimately to the Federal reserve banks where it would be used to retire member bank indebtedness and beyond that would accumulate as excess reserves. It is not by any means certain that the member banks would utilize these excess reserves and it is quite possible that the operation would have no other consequences than to place the Federal reserve out of touch with the market. There is little difference between this procedure and the purchase of $3,000,000,000 of Government securities by the Federal reserve banks, except that the issuance of money directly by the Government completely disregards Federal reserve machinery and removes even the theoretical possibility of the Federal reserve exercising any influence towards checking a run-away situation, which conceivably may be possible if the securities are owned by the reserve banks.

To my way of thinking, this is neither a realistic nor an effective approach to the problem. What is needed is not currency or credit, but activity, and what the Government needs to decide is how much activity it wishes to

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undertake. The problem of how to finance it--whether through borrowing and what kind of borrowing, or through the issuance of money--is secondary.

One effect that the issuance of currency of that magnitude is likely to have is to affect unfavorably the credit of the Government, with a number of consequences. Government bonds would decline in value; the issuing of additional bonds would be more difficult, and the temptation and almost necessity for issuing more currency in meeting the Government's expenses is likely to arise.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 28, 1933

To Mr. Goldenweiser

Subject: The reduction in gold content of currencies

From Mr. Longstreet

2—8495

The following table lists the principal countries that have reduced the gold content of their currencies since the war:

Country	Reduction in gold content (percent)	Date of reduction
Austria	100.0	January 3, 1923
Hungary	100.0	April 28, 1925
Belgium	85.6	October 25, 1926
Chile	66.6	January 11, 1926
France	79.8	June 25, 1928
Germany	100.0	October 11, 1924
Greece	93.3	May 14, 1928
Italy	72.5	December 22, 1927

In Austria, Hungary, and Germany the old currencies were made exchangeable for new units at rates ranging from 10,000 : 1 in the case of Austria to 1,000,000,000,000 : 1 in the case of Germany. Other countries shown in the table kept their existing currencies but reduced the gold content of the standard unit.

When these countries reduced the gold content of their currencies, and this applies in general to all countries that devalued after the war, their currencies had already depreciated in relation to gold, and it was the existing reduced market value of their currencies in terms of gold that these countries adopted as the legal mint par. In this way these currencies were stabilized to conform with conditions existing at the time, and their value in terms of gold was not actually reduced. This action did not result in an increase in prices in any country, as

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illustrated by the following wholesale price indexes of France, Belgium, and Italy.

WHOLESALE PRICES

France 1913 = 100		Belgium 1914 = 100		Italy 1913 = 100	
1928 - Jan.	607	1926 - May	692	1927 - July	467
Feb.	609	June	761	Aug.	465
Mar.	623	July	876	Sept.	465
Apr.	624	Aug.	836	Oct.	468
May	632	Sept.	859	Nov.	466
1/ June	626	1/ Oct.	856	1/ Dec.	463
July	624	Nov.	865	1928 - Jan.	463
Aug.	617	Dec.	860	Feb.	461
Sept.	620	1927 - Jan.	856	Mar.	464
Oct.	617	Feb.	854	Apr.	464
Nov.	626	Mar.	858	May	465
Dec.	624	Apr.	846	June	462
1927 (avg.)	617	1925 (avg.)	558	1926 (avg.)	603
1928 (avg.)	621	1926 (avg.)	744	1927 (avg.)	495
1929 (avg.)	610	1927 (avg.)	847	1928 (avg.)	462

1/ Month of devaluation.

There were a large number of countries that did not devalue their currencies after the war, including Great Britain and her colonies and dominions, Denmark, Japan, Norway, and Sweden, which are off gold but have not as yet determined the basis on which they will return to gold; and Switzerland and Netherlands, which are on the gold basis on the old parity.

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B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MAY 1933

Federal Reserve Bank	Month of May 1933: Earnings from - Discounted bills	Earnings from - Purchased bills	Earnings from - U.S.Gov't. securities	Earnings from - Other sources	Earnings from - Total	Current expenses: Exclusive of cost of F.R. currency	Current expenses: Total	Current net earnings: Total	Current net earnings: Ratio to paid-in capital	Jan. - - May 1933 Current net earnings: Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss
									Per cent		Per cent	
Boston	$32,609	$38,563	$168,007	$3,522	$242,701	$150,928	$157,031	$85,670	9.4	$280,400	6.3	$7,317
New York	176,445	24,552	1,361,994	36,199	1,599,190	541,080	559,327	1,039,863	20.9	4,632,950	19.1	3,210,723
Philadelphia	81,346	4,360	245,996	3,825	335,527	174,985	181,882	153,645	11.4	935,486	14.2	522,502
Cleveland	206,444	5,836	316,308	11,544	540,132	214,704	221,356	318,776	27.0	969,755	16.8	585,785
Richmond	35,011	2,297	86,442	3,361	127,111	120,659	121,662	5,449	1.2	42,667	2.0	-125,776
Atlanta	71,082	4,757	87,729	12,526	176,094	105,495	108,797	67,297	17.0	243,439	12.6	123,987
Chicago	50,577	24,250	439,193	20,363	534,383	290,817	316,846	217,537	16.5	902,831	13.8	500,543
St. Louis	7,377	4,083	119,104	5,290	135,854	102,587	103,755	32,099	9.3	-12,552	--	-144,320
Minneapolis	23,054	5,053	107,536	2,028	137,671	87,270	87,517	50,154	20.9	154,003	13.0	76,905
Kansas City	26,257	1,775	102,914	19,825	150,771	138,426	139,005	11,766	3.3	9,613	.6	-93,962
Dallas	18,541	1,515	87,407	3,629	111,092	89,408	89,719	21,373	6.5	-16,885	--	-114,650
San Francisco	162,190	15,018	224,162	6,359	407,729	221,477	222,679	185,050	20.6	740,138	17.1	451,562
TOTAL												
May 1933	890,933	132,059	3,346,792	128,471	4,498,255	2,237,836	2,309,576	2,188,679	17.2			
April 1933	1,069,407	275,769	2,927,102	129,910	4,402,188	2,432,861*	2,790,071	1,612,117	13.1			
May 1932	1,417,181	169,044	2,456,046	190,282	4,232,553	2,040,235	2,109,588	2,122,965	16.2			
Jan.-May 1933	6,224,479	1,067,574	13,593,656	669,168	21,554,877	11,276,297	12,673,032	8,881,845	14.3	8,881,845	14.3	5,000,616
1932	10,052,165	1,864,119	8,901,904	1,144,477	21,962,665	10,326,152	10,775,351	11,187,314	17.2	11,187,314	17.2	7,314,773

*Revised.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JUNE 13, 1933

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Federal Reserve Bank of St. Louis

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 28, 1933

See Bd

To Mr. Hamlin

From Mr. Goldenweiser

Subject: Speech of Senator Thomas, as of April 24, 1933

2—8495

The figures in Senator Thomas' speech relating to money in circulation are taken directly from the weekly statement of condition of the Federal reserve banks. The figures quoted on deposits are incorrect. At one place, Senator Thomas says there are now only $12,000,000,000 on deposit in the open banks of the nation. This is about equal to the present volume of net demand deposits at member banks alone and excludes completely time deposits at these banks as well as both demand and time deposits at nonmember banks and savings deposits of savings banks. In another place, Senator Thomas states that total deposits have diminished from $60,000,000,000 to possibly $30,000,000,000. This also is incorrect. Total deposits of all banks, according to the Rand-McNally compilation, were around $60,000,000,000 in 1928 and 1929, but this compilation which is arrived at by adding up published statements has several features of exaggeration due to window dressing in these statements. The highest figure in our own compilations of deposits, exclusive of interbank deposits, was $56,766,000,000 on December 31, 1928. By last December this figure had declined to $41,643,000,000. We do not yet have figures for any date since the banking holiday, but it is clear that the reduction due to that holiday has not reduced the figure to $30,000,000,000.

The major error in Senator Thomas' speech, however, does not lie in his facts but in his interpretation of these facts. He continually refers to a decrease in the discounts of member banks as a sale of bills by the Federal reserve banks instead of as a voluntary repayment of a loan by a member bank.

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Thus he considers a decrease of bills discounted, amounting in all to $816,-000,000 between March 8 and April 19, as voluntary sales of bills by the reserve banks to pull currency out of the market. More important than this, however, is the confusion regarding changes in the volume of money in circulation. Senator Thomas considers each increase in money in circulation as an addition to the funds available to the community and each decrease in money in circulation as a deflating force. In reality, the exact opposite is true. When an individual draws his money out of a bank, his deposit account is debited correspondingly, but his ability to spend is unchanged. The only difference is that if he makes a purchase, he must pay for it in currency rather than with a check. The bank, however, has lost reserves and is under pressure, and may have to borrow at the reserve bank. If he redeposits his currency in a bank, his total spending power is again unchanged, but the bank has gained reserves and is relieved of pressure. Thus, the increase in money in circulation prior to the bank holiday, while it added nothing to the purchasing power of those who withdrew their funds, did place the banks under pressure and caused them to borrow heavily at the reserve banks. The decline of $1,470,000,000 of money in circulation after the holiday reflected a redeposit of this currency in the banks. It subtracted nothing from the purchasing power of those who again built up their bank deposits, but relieved the banks from pressure and gave them funds with which to repay their borrowings at the reserve banks and in addition to build up considerable reserves in excess of requirements and available for use as a basis of expanding their operations. In existing circumstances, expansion of currency has been a deflationary influence of the first importance, and contraction of currency has worked toward inflation or reflation.

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Open Mkt Com

Resolution

It is the sense of the Open Market Policy Conference that, subject to the approval of the Federal Reserve Board, the executive committee be authorized to arrange with the Secretary of the Treasury from time to time to purchase up to $1,000,000,000 of Government securities to meet Treasury requirements.

(Unanimous, with Deputy Governor McKay not voting)

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MBd
Friday May 12 '33

The Federal Reserve Board has given careful consideration to the resolutions adopted at the meeting on April 22, 1933, of the Open Market Policy Conference, and ~~at its meeting today, the Secretary of the Treasury participating,~~ requested me to advise you that it authorizes the executive committee of the conference to proceed with its proposed purchases of United States Government securities up to an aggregate of $1,000,000,000. In granting this authority the Board will expect to be kept informed currently by the executive committee of its program of purchases and as to any developments in the situation which may affect the application of the program. The Board will have the whole matter of open market policy under constant review, and will advise the committee of changes to be made in the program in order more fully to adjust it to the requirements of the national situation.

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Above all else, the Council is vigorously opposed to the principle of the guarantee of bank deposits as provided for in the bills under consideration. It believes that even as an emergency measure such a step is both unnecessary at the present time and doomed to failure in practice.

The Council realizes and admires the faithful and conscientious study that distinguished members of the Congress have given to the banking problems, but it ventures to ask in view of there being an entirely new administration in the Department of the Treasury and a new Governor of the Federal Reserve Board about to take office whether it might not be wise to allow these new financial authorities more time for a still more thorough study of the situation and the formulation of policies based thereon.

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Sen Bu

Fed adv council
May 16 '33

The Federal Advisory Council desires to place on its records this minute expressing its great satisfaction and gratification in the way the general situation has been helped by the President's leadership and by the action of the Congress in passing so promptly the emergency banking legislation of March 9, 1933.

The reopening of sound banks has contributed largely to the restoration of public confidence. A careful survey shows that the whole banking situation is steadily improving. In view of the successful results of the constructive measures so far undertaken the Council has given careful consideration to the wisdom of enacting further banking legislation at this session of the Congress and has discussed especially S. 1631 and H.R. 5598 (the Glass and Steagall bills).

The Council recognizes the many constructive features embodied in the two bills mentioned such as the divorcement of affiliates from banks, the regulations as to qualifications for directorships, the limitations placed upon officials serving with companies handling investment securities, and the like. The Council believes that many of these provisions if enacted into law will be beneficial to the country.

On the other hand, the Council questions the advisability of preventing in the future banks from participating in long term capital financing. The Council would point out that with the complete elimination of banks from all types of underwriting it is likely to prove impossible to place at the disposal of commerce and industry the funds needed for the progress of industrial development in this country. There are simply not available outside of the banks sufficient accumulations of capital to handle the financing and refinancing required.

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Sa Bu

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 22, 1933

To Mr. Hamlin

Subject: Gold content and exchange stabilization

From Mr. Goldenweiser EAG

2—8495

In international trade the matter of importance is the relation of different currencies to each other in conjunction with the levels of prices and costs prevailing in the different countries.

If the gold content of all currencies throughout the commercial world were cut in two, this would have no effect on international trade or on price levels, except to the extent that the resulting increase in central gold reserves might over a long period of time tend towards an increase in prices.

A cut in the gold content of any one currency, however, would have important international consequences. Take, for instance, the United States. Its price level is approximately such that England can trade with it so long as the pound is worth $3.50 or thereabouts, and the franc is worth about 4 cents. If the dollar were cut in two, so that it took $7.00 to buy a pound and 8 cents to buy a franc, these two countries could no longer sell goods to the United States and would be under pressure to buy a great deal from this country, provided the American price level did not double. If the cut of the gold content of the dollar were accompanied by a doubling of prices in the United States, then our international trade position would not be changed.

But there would be nothing in the act to cause our prices to double and, therefore, there would be a long period of severe adjustment with America offering a bargain counter for European buyers and drawing gold from all countries that have no embargo. In these circumstances the price of gold in the United States would be the best in the world.

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Foreign countries would undoubtedly have to protect themselves against the depreciation of the dollar, both by a further depreciation of their own currencies and by additional restrictions on trade.

International action about currencies has to be guided by the following principles:

(1) The actual level at which currencies are stabilized is of relatively little importance, except as it affects the reserves of the central banks.

(2) After prices, costs, and debts have become adjusted to a given gold content of a currency, it ceases to be of importance at what level a currency is fixed.

(3) But these adjustments are slow, particularly in relation to costs, including wages, and debts.

(4) The period while the adjustments are taking place is one in which trade relationships suffer because of uncertainty and maladjustment.

(5) There is no permanent advantage to be gained by any country through having its exchange rate be too low, because the temporary advantage of encouraging exports and discouraging imports is offset by the bad effects of this condition on international trade, the abnormal movements of gold, and the protective measures engendered in other countries.

(6) If a country can bring about a domestic rise in prices relative to the world level -- then a cut in the gold content of its currency is desirable in order not to permit world competition to bring its prices down again. In that case a cut in gold content is not inimical to world trade.

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(7) There is, therefore, no fundamental conflict of interest between the countries in this respect. Establishment of exchange ratios, or gold contents, on a level that makes it possible for each country to sell enough goods abroad to pay for the goods she buys abroad is to the advantage of all countries concerned.

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Mr Hamlin

May 22, 1933

PRELIMINARY MEMORANDUM FOR THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE, MAY 23, 1933

During the past month there has been a considerable further increase in business activity, a strong rise in commodity and security prices, and a further improvement in the banking situation. Indications of the extent of the rise in business activity and in prices are given in the following table:

	1933 Low	Latest	Per cent change
Industrial production - - - - - - - - - - - (F. R. Board monthly index)	60 (Mar.)	66 (April)	+ 10
Merchandise and miscellaneous carloadings (F. R. Bank of N. Y. weekly index)	46.1 (Mar.)	54.1 (May 13)	+ 17
Wholesale prices of 285 commodities - - - (F. R. Board weekly index)	59.6 (Mar.)	63.2 (May 12)	+ 6
Wholesale prices of 15 basic commodities- (Moody's daily index)	78.7 (Feb.)	116.0 (May 18)	+ 47
Prices of 90 stocks - - - - - - - - - - - - (Standard Statistics Co. daily index)	43.9 (Feb.)	68.7 (May 20)	+ 56
Bond prices			
U. S. Government bonds - - - - - - - - - (F. R. Bank of N. Y. average)	98.8 (Mar.)	102.6 (May 20)	+ 4
Aaa bonds (Moody's average) - - - - - -	97.8 (Apr.)	103.3 (May 19)	+ 6
A " " " - - - - - -	72.2 (Apr.)	80.7 " "	+ 12
Baa " " " - - - - - -	53.3 (Apr.)	67.0 " "	+ 26
B " (F. R. Bank of N. Y. average) -	31.1 (Apr.)	41.8 " "	+ 34

Steel mill operations have considerably more than doubled since the bank holidays and have risen well above a year previous for the first time since 1929. Electric power production also has recently reached a level above that of a year previous for the first time in about three years. The railroad movement of merchandise is now closer to the level of the year previous than at any time since the beginning of the depression. Retail trade also has improved considerably. The relatively favorable comparisons with a year ago are due partly to the downward course of business a year ago, but, in general, business activity appears to have about regained the level of last autumn. The principal industries which have not yet shown a material increase in activity are those dependent upon the investment of new capital, such as the building and industrial equipment industries.

The rise in commodity prices thus far has been largely in the basic commodities such as grain, cotton, rubber, and basic metals. An index of 15 such commodities

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is now nearly 50 per cent above the low point of the year, whereas the broad indexes of wholesale commodity prices have risen only about 6 per cent. Basic commodity prices have reached the highest level since the early autumn of 1931, while wholesale commodity prices in general remain close to the lowest levels reached up to the end of 1932. As a result, the gap between basic commodity prices and the general level of wholesale commodity prices has been materially reduced. During the past few days a moderate reaction in commodity prices has occurred.

The Position of Member Banks.

The renewed publication of data on the loans and investments and deposits of selected member banks in principal cities throughout the country shows that besides the substantial recovery in deposits and a renewed increase in loans and investments in New York City, deposits in other cities have increased moderately, and there has been some increase in loans and investments, reversing the tendency of several previous months. These changes are summarized in the following table:

(Millions of dollars)

	New York City		Other Reporting Cities	
	Mar. 8	May 17	Mar. 8*	May 17
Loans				
On securities	1,668	1,735	2,091	1,989
All other	1,453	1,617	3,098	3,080
Total	3,121	3,352	5,189	5,069
Investments				
U. S. securities	2,186	2,378	2,241	2,556
Other securities	1,105	1,117	1,886	1,874
Total	3,291	3,495	4,127	4,430
Total loans and investments	6,412	6,847	9,316	9,499
Deposits				
Net demand	4,481	5,558	4,794	5,123
Time	749	692	3,496	3,579
Total	5,230	6,250	8,290	8,702

*Unpublished data

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The increase in deposits reflects to a considerable extent the return flow of currency since the bank holidays, although a part has been the result of additional loans and investments. Funds received through the return of currency have been used largely to retire indebtedness at Federal Reserve Banks, but until a month ago there was also a fairly rapid increase in the reserve balances of member banks. Since the April meeting of the Open Market Policy Conference, however, the growth of member bank reserves has been checked, although currency has continued to flow back to the banks. The reasons for this are indicated in the following table:

(Millions of dollars)

	April 19 to May 17 Gain (+) or Loss (-)
Gain or loss of reserve funds through -	
Reduction in currency outstanding - - - - - - - - - -	+ 216
Reduction in "Treasury currency adjusted" - - - - -	- 13
Increase in foreign balances in F. R. banks - - - -	- 11
Net gain -	+ 192
Reduction in F. R. discounts - - - - - - - - - - - -	- 84
Reduction in F. R. bills bought - - - - - - - - - - -	- 131
Reduction in other F. R. credit - - - - - - - - - - -	- 22
Net loss through reduction in F. R. credit- -	- 237
Change in member bank reserves - - - - - - - - - - -	- 45

As this table shows, the reduction in Federal Reserve credit has proceeded somewhat more rapidly during the past month than the gain of funds to member banks from other sources. As a result, member bank balances showed a net decline of $45,000,000 during the past four weeks.

In addition there has been a fairly steady increase in reserve requirements, accompanying the expansion in member bank deposits. For all member banks the increase in reserve requirements during the past month has been in the neighborhood of $75,000,000. Consequently, excess reserves of all member banks, which a month ago were above $400,000,000, have since declined to around $300,000,000. In New York City, excess reserves, which a month ago were around $200,000,000, were nearly wiped out at the beginning of May, and after a renewed flow of funds to New

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York remain below $100,000,000.

Prospects for Ensuing Weeks.

During the two weeks ending May 31 most of the remaining dollar acceptances held by the System, about $65,000,000 will mature. The payment of these bills at maturity will tend to reduce member bank reserves, and may result in increased offerings of bills to bill dealers, whose portfolios are now rather large. This might result in a temporary tightening of the money market.

In the week ending May 24 there should be a further return flow of currency to offset the effect of the decline in the System's bill holdings, and in addition there will probably be Treasury expenditures of the free gold which has resulted from making all forms of money legal tender. During the last week of May, however, there is usually some increase in the demand for currency for the month-end and the Decoration Day holiday, which may add to the effect of maturities from Federal Reserve bill holdings in reducing member bank reserves.

Foreign Exchange

A factor of some importance in the rise in prices during the past few weeks has been the decline in the dollar relative to the principal foreign currencies. This appears to have been effective in stimulating prices more because it has seemed to indicate a decline in the value of the currency unit of this country than because of any increase in the actual exports of commodities from this country. In the case of wheat, which is among the commodities that have shown the largest price increases during recent weeks, exports have declined in volume, and in the case of cotton the increase in exports has not been large.

The decline in the dollar relative to foreign currencies appears to have been the result chiefly of movements of capital, rather than of ordinary settlements of balances due between this and other countries. The balance of payments position of this country, exclusive of capital movements, remains favorable, and would

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ordinarily tend to maintain the dollar in a strong position. During the past ten days the depreciation in the dollar against the principal foreign currencies has diminished somewhat. For the time being at least, therefore, this factor as a stimulus to prices is no longer effective.

The Government Security Market

As the table on the first page of this report shows, there has been a moderate recovery in the market for United States Government bonds following the decline in February and early March, and the same is true of Treasury notes. In the case of Treasury certificates and bills, yields declined rapidly after the abrupt rise during the banking crisis, and have remained at low levels in recent weeks.

The moderate strength of Government obligations recently, in the face of expected large additional issues of Government securities, appears to have been due at least in part to purchases by dealers in anticipation of large operations in Government securities by the Reserve Banks. As the result of these purchases, dealers' portfolios are now at unusually high levels.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 23, 1933

To Mr. Hamlin

Subject:

From Mr. Rhodes JBR

GPO 2—8495

With reference to your request of May 20, I am attaching a memorandum prepared by Mr. Gardner and Mr. Longstreet on "Balancing of the French Budget in 1926".

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 23, 1933

To Mr. Hamlin W.R.G.

Subject: Balancing of the French Budget in 1926.

From Mr. Gardner and Mr. Longstreet W.L.

2—8495

The following table summarizes the position of the French budget from 1913 to 1927:

FRENCH BUDGET

1913-1927

(In billions of francs)

Year	Receipts	Expenditures	Deficit or Excess
1913	5.1	5.1	- 0.03
1914	4.2	10.4	- 6.2
1915	4.1	22.1	-18.0
1916	4.9	36.8	-31.9
1917	6.2	44.7	-38.5
1918	6.8	56.7	-49.9
1919	11.6	54.2	-42.6
1920	20.1	58.1	-38.0
1921	23.1	51.1	-28.0
1922	24.2	48.9	-24.7
1923	27.7	45.8	-18.1
1924	31.1	40.2	- 9.1
1925	29.5	34.2	- 4.7
1926	45.1	44.9	+ 0.2
1927	43.7	42.7	+ 1.0

Source: "The French Franc 1914-1928" by Eleanor Lansing Dulles, page 494.

In the war years from 1914 to 1918 the deficit of the French Treasury grew at an increasing rate. From 1918 through 1925 the deficit continued, but each year the budget was brought nearer to a balance, partly by reducing expenditures but chiefly by increasing revenues through higher receipts from taxation. The fact that the deficits continued, however, meant that the public debt continued to increase from year to year; and the Government's finances presented a most unfavorable contrast with those of England and the United States where budgets were balanced a few years

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after the war. Moreover by 1926 the limits of taxation appeared to have been reached and the wide diversity of viewpoints in the Chamber of Deputies had reduced that body to a state of paralysis. Alarm spread and in July there was danger that the franc might go the way of the German mark. The crisis, however, led to the formation of a national coalition under the premiership of Poincaré, who by reason of his character and determination commanded the confidence of the French people. Poincaré immediately put into effect sharp increases in customs duties, the sales tax, and various other commodity taxes, thereby balancing the budget; and at the same time he reduced the high surtaxes on income which, together with the threatened capital levy, had been more effective in creating a flight of capital than in creating revenue. These and other measures which are discussed in some detail in Chapters 8 and 9 of R. M. Haig's book on the Public Finances of Post-War France, restored confidence in French finance and led to the rapid repatriation of capital previously sent abroad. The repatriation of capital made it possible to stabilize the franc immediately and in the years of prosperity that followed, tax revenues continued to increase although the general tendency of rates of taxation was downward.

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Federal Reserve Bank of St. Louis

Mr. Hamlin

Sec Bu

June 2, 1933

TO: Federal Reserve Board

FROM: Mr. Smead

Classification of deposits by size of accounts.

CONFIDENTIAL

On May 13 the Senate Committee on Banking and Currency requested the Comptroller of the Currency to secure and furnish the Committee a classification of the number of deposit accounts and of the aggregate amount of deposits of national banks according to size of accounts. The Comptroller's office immediately telegraphed all licensed national banks for this information, and it is understood that the tabulation will soon be completed.

While the Senate committee did not ask for corresponding information with regard to state bank members, the Board sent a telegram to the Federal reserve agents on May 18 requesting them to obtain a similar classification of deposits from state bank members as of May 13. The data collected by the Federal reserve agents are summarized, by districts, in the attached table. As indicated in the table, on May 13, 1933, the 664 licensed state bank members had approximately 8,080,000 deposit accounts, aggregating $8,618,000,000. The average size of the accounts was $1,067, ranging from a minimum of $318 in the Dallas district to a maximum of $1,989 in the New York district.

The number of deposit accounts of $2,500 or less reported by the 664 licensed state bank members was approximately 7,734,000, or 95.7 per cent of the total number of accounts, and the aggregate balances in these accounts were $1,596,600,000, or 18.5 per cent of all deposits. There were 18,512 deposit accounts of over $50,000, or 23/100 of 1 per cent of the total number of deposit accounts, but the aggregate amount of these large-

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size accounts was $4,467,300,000, or more than half the aggregate of all deposits.

Following is a summary of the data reported, covering the 664 state bank members as a whole:

Size Group	Number of accounts	Per cent of total number of accounts	Amount of deposits	Percent of total deposits	Average size of accounts
Total, all deposit accounts	8,079,376	100.0	$8,618,038,000	100.0	$1,067
Deposit accounts of-					
$2,500 or less	7,733,630	95.7	1,596,616,000	18.5	206
$2,501 to $5,000	170,819	2.1	587,832,000	6.8	3,441
$5,001 to $10,000	89,328	1.1	612,173,000	7.1	6,853
$10,001 to $50,000	67,087	.8	1,354,072,000	15.7	20,184
Over $50,000	18,512	.23	4,467,345,000	51.9	241,321

Under the provisions of H. R. 5661, both as passed by the House and as passed by the Senate, the net amount due to each owner of any claim arising out of a deposit liability of a closedbank, would be insured as follows:

100 per centum of such net amount not exceeding $10,000; and
75 per centum of the amount, if any, by which such net deposit exceeds $10,000, but does not exceed $50,000; and
50 per centum of the amount, if any, by which such net deposit exceeds $50,000.

The bill as passed the House provides for the insurance of deposits of both member and nonmember banks on the above basis, whereas the bill as passed the Senate provides for the insurance of deposits, beginning July 1, 1934, of member banks only. The bill as passed by the Senate also provides for a Temporary Federal Bank Deposit Insurance Fund for the period July 1, 1933 to July 1, 1934, under which deposits of both member and nonmember banks would be insured up to $2,500 in case of each depositor.

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CONFIDENTIAL

B-897

CLASSIFICATION OF TOTAL DEPOSITS ON MAY 13, 1933, OF LICENSED STATE BANK MEMBERS, BY SIZE OF ACCOUNTS AND BY FEDERAL RESERVE DISTRICTS

(Grouping by size of deposit accounts conforms to H.R. 5661)

Federal Reserve District	Number of banks	Total - All deposit accounts: Total number of accounts	Amount of total deposits	Average size of all accounts	Deposit accounts of $2,500 or less: Number of accounts	Per cent of all accounts	Amount of deposits	Per cent of total deposits	Deposit accounts of $2,501 to $5,000: Number of accounts	Per cent of all accounts	Amount of deposits	Per cent of total deposits
Boston	25	548,743	$415,659,000	$757	520,799	94.9	$114,288,000	27.5	14,021	2.6	$47,236,000	11.3
New York	140	2,625,760	5,222,419,000	1,989	2,463,655	93.8	637,296,000	12.2	72,440	2.8	251,259,000	4.8
Philadelphia	57	641,719	562,929,000	877	616,094	96.0	123,775,000	22.0	13,209	2.1	46,746,000	8.3
Cleveland	59	1,211,778	706,900,000	583	1,174,849	97.0	205,762,000	29.1	20,878	1.7	72,350,000	10.2
Richmond	34	372,923	195,569,000	524	362,678	97.3	55,983,000	28.6	5,352	1.4	18,573,000	9.5
Atlanta	36	126,478	61,987,000	490	123,517	97.7	18,466,000	29.8	1,568	1.2	5,473,000	8.8
Chicago	91	914,200	519,726,000	569	885,943	96.9	161,565,000	31.1	15,100	1.7	51,826,000	10.0
St. Louis	50	476,285	225,308,000	473	464,817	97.6	81,276,000	36.1	6,838	1.4	22,997,000	10.2
Minneapolis	35	71,719	31,183,000	435	69,866	97.4	11,637,000	37.3	1,057	1.5	3,655,000	11.7
Kansas City	27	179,684	104,674,000	583	176,080	98.0	17,708,000	16.9	1,443	.8	5,212,000	5.0
Dallas	49	103,974	33,102,000	318	102,073	98.2	12,797,000	38.7	961	.9	3,367,000	10.2
San Francisco	61	806,113	538,582,000	668	773,259	95.9	156,063,000	29.0	17,952	2.2	59,138,000	10.9
Total	664	8,079,376	8,618,038,000	1,067	7,733,630	95.7	1,596,616,000	18.5	170,819	2.1	587,832,000	6.8

Federal Reserve District	Deposit accounts of $5,001 to $10,000: Number of accounts	Per cent of all accounts	Amount of deposits	Per cent of total deposits	Deposit accounts of $10,001 to $50,000: Number of accounts	Per cent of all accounts	Amount of deposits	Per cent of total deposits	Deposit accounts of over $50,000: Number of accounts	Per cent of all accounts	Amount of deposits	Per cent of total deposits
Boston	7,799	1.4	$49,355,000	11.9	5,294	1.0	$92,707,000	22.3	830	.15	$112,073,000	27.0
New York	41,140	1.6	286,514,000	5.5	36,151	1.4	769,252,000	14.7	12,374	.47	3,278,098,000	62.8
Philadelphia	6,814	1.1	47,217,000	8.4	4,513	.7	86,900,000	15.4	1,089	.17	258,291,000	45.9
Cleveland	9,454	.8	65,123,000	9.2	5,475	.5	104,657,000	14.8	1,122	.09	259,008,000	36.7
Richmond	2,544	.7	17,580,000	9.0	1,941	.5	38,053,000	19.5	408	.11	65,380,000	33.4
Atlanta	775	.6	5,260,000	8.5	526	.4	10,640,000	17.2	92	.07	22,148,000	35.7
Chicago	7,288	.8	49,535,000	9.5	4,879	.5	96,149,000	18.5	990	.11	160,651,000	30.9
St. Louis	2,582	.5	17,781,000	7.9	1,660	.4	31,418,000	13.9	388	.08	71,836,000	31.9
Minneapolis	486	.7	3,190,000	10.2	275	.4	5,157,000	16.6	35	.05	7,544,000	24.2
Kansas City	954	.5	6,762,000	6.5	936	.5	20,380,000	19.5	271	.15	54,612,000	52.1
Dallas	492	.5	3,385,000	10.2	391	.4	7,652,000	23.1	57	.06	5,901,000	17.8
San Francisco	9,000	1.1	60,471,000	11.3	5,046	.6	91,107,000	16.9	856	.11	171,803,000	31.9
Total	89,328	1.1	612,173,000	7.1	67,087	.8	1,354,072,000	15.7	18,512	.23	4,467,345,000	51.9

DIVISION OF BANK OPERATIONS, JUNE 2, 1933

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Mr. Hamlin

Sec Bd

May 24, 1933.

The Federal Reserve Board

Mr. Vest, Assistant Counsel.

Views of Federal reserve banks regarding eligibility of paper of finance companies for rediscount.

At the Governors' Conference held in November, 1932, one of the topics suggested by the Federal Reserve Board was Finance Company Paper and, upon consideration of this subject, it was voted by the Conference "that each Governor express his opinion on the subject, supported by appropriate reasons, in a letter to the Federal Reserve Board." The letters which have been received from the Federal reserve banks on this subject are attached hereto. From these letters, a wide difference of opinion is evident and while the majority of the replies may be said to take the view, or to be inclined to the opinion, that such paper should not be made eligible for rediscount, a number of Governors feel that under proper restrictions the paper might properly be made eligible.

The primary reason advanced by those who favor eligibility is the need for a greater amount of eligible paper in the portfolios of member banks. Other reasons are the safety and soundness of such paper and its past record as to losses. Those who oppose eligibility contend that the paper accepted by finance companies and which is used to secure their notes runs for much longer maturities than does eligible paper under existing law; that finance companies are, in effect, banking institutions and should not be given greater privileges than are nonmember banks; that paper accepted by finance companies is consumers'

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paper; and that there are many different types of finance company paper some of which may be desirable and other undesirable.

In the following paragraphs there is given a brief summary of the views expressed by each of the Governors and Federal Reserve Agents who have submitted comments on this matter.

BOSTON

Governor Young:

Paper of finance companies, properly managed, is sound and self-liquidating and has stood up unusually well under very adverse conditions. Because of maturities, however, much of it could not be made eligible on the same basis as other eligible paper. To make it eligible, therefore, would bring about two classes of paper of finance companies, one eligible and one ineligible; and this would result in destroying to a degree the regular market which now exists for finance paper. In the circumstances a renewal of Section 10(b) of the Glass-Steagall Act would be the most desirable legislation for finance companies. (This was written January 21, 1933, and since that time the provisions of Section 10(b) have been extended.)

NEW YORK

Governor Harrison:

The letter from New York is sent on behalf of both Mr. Case and Governor Harrison, who believe that it would be desirable to make the paper of finance companies eligible for discount subject to certain limitations.

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If the requirement of the existing regulations that paper in order to be eligible must have been issued or drawn or the proceeds used "in the first instance" in a commercial or agricultural transaction, is to be relaxed, it would seem necessary to make sure that no paper is to be eligible when the borrower is more than one step removed from the commercial or agricultural transaction, and even then to limit eligibility to well-defined classes of finance company paper.

No case has been observed where a bank which has exhausted its supply of eligible paper has any important amount of finance paper on hand. However, it is believed that banks have been reluctant to acquire finance company paper, because it is not eligible.

Mr. Kenzel is said to feel that finance company paper should be eligible only when secured by paper that is self-liquidating within 90 days. Mr. Case and Governor Harrison do not agree with this view but feel that it might be desirable to limit the amount of eligible borrowings of any particular finance company to not more than the total volume of transactions financed by it which will be liquidated within the next 90 days.

PHILADELPHIA.

Governor Norris:

Favors liberalizing the law, if necessary, in order to make eligible certain classes of finance paper.

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Calls attention to amendment of March 4, 1923, making paper of agricultural factors eligible, and feels that it is equitable that the same consideration should be extended to finance companies in the commercial field, doing business under somewhat similar conditions.

Calls attention to the character of paper of the General Motors Acceptance Corporation, commission houses, and credit corporations as the kinds of paper which might be made eligible.

Eligible finance paper should be confined to that which is secured by notes of a kind that are eligible for rediscount.

CLEVELAND.

Deputy Governor Zurlinden:

In a memorandum to Governor Fancher, Mr. Zurlinden discusses the subject of finance paper in some detail. He calls attention to the allegation of the finance companies that they have incurred few losses, but says they make no reference to the great number of repossessions and tremendous losses incurred by manufacturers and others as a result of high-pressure installment sales made possible through finance paper. Payments upon installment sales have in many cases been at the expense of the unsecured creditor and therefore to the detriment of the retail trade. Eligibility of finance paper would merely add impetus to methods "which have already been disastrous to many".

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Mr. Zurlinden does not believe that finance company paper should be admitted to eligibility because (1) finance companies are in effect bankers financing long term sales and it is not desirable to make the borrowing facilities of the Federal Reserve System available to nonmember institutions; (2) the making of finance paper eligible would necessarily mean also the admission of paper of holding companies and of warehouse companies which borrow to provide their customers with funds to purchase goods stored in warehouses; and it would admit obligations of concerns engaged in banking operations collateralled by paper which is ineligible, by reason of maturity, as security for the notes of member banks themselves; (3) it would be a discrimination against those branches of commerce and industry which are not served by finance companies and whose paper to be eligible must mature within ninety days from date of discount; (4) finance companies would bring pressure upon their banks to take on increased loans on finance paper and this would give further impetus to installment sales.

Mr. Zurlinden also discusses the long campaign waged by the finance companies for admission of their paper to eligibility. He refers to the alleged lack of eligible paper under existing law, and argues that a greater use of trade acceptances in place of open accounts would remedy this situation.

RICHMOND.

Governor Seay:

Expresses the opinion that certain classes of finance paper might well be made eligible for rediscount by Federal reserve banks, notwithstanding practical difficulties which might be encountered in framing regu-

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lations, and that it would be advisable for the Board to consider an amendment to the law for this purpose.

The primary reason for advocating the eligibility of such paper is the need for creating a larger supply of eligible paper arising out of commerce and industry. Furthermore, there is little doubt that many classes of installment paper are safer than much paper which is now eligible and which is being accepted by Federal reserve banks. Finance paper properly regulated can be made thoroughly safe for Federal reserve banks and will represent current business transactions more accurately than "line of credit paper".

Notwithstanding that one of the causes of the depression was the intensive development of installment selling, it is believed that such selling is a permanent part of the business of the country and is likely to prevail during recovery from the depression.

CHICAGO.

Governor McDougal:

Finance paper should not be made eligible for rediscount. In view of the short maturity now required of eligible paper it would not be in accord with the principles of the Federal Reserve Act to consider finance paper secured by installment notes running from one to two years as paper having the self-liquidating qualities of commercial paper. Moreover, finance companies are exercising a banking function and it would be inconsistent to extend privileges to them which cannot be extended to nonmember banks.

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Mr. Stevens:

Finance paper dependent upon the payment by the consumer for merchandise purchased is not within the purpose of the Federal Reserve Act; but such paper which is secured by merchandise in storage and which will be liquidated by the sale thereof might be made eligible.

The maturity date of eligible commercial paper might well be extended from 90 days to six months.

ST. LOUIS.

Governor Martin:

Paper of finance companies should not be made eligible for discount at Federal reserve banks.

Finance companies do not adhere strictly to any given type of financing; some have open accounts with a rapid turnover; others finance "character loans" or the sale of machinery for periods up to three years.

Inasmuch as the bills receivable of a finance company are ordinarily eligible for discount under the present law if they are of proper maturities, the only reason for making the notes of finance companies eligible would be to allow them to carry their bills receivable which are ineligible for discount either by reason of maturity or otherwise.

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MINNEAPOLIS.

Governor Geery:

Paper representing installment buying should not be eligible for rediscount, but paper of cold storage companies secured by notes evidencing advances to customers who have stored their products in the warehouses of such companies should be entitled to be classed as eligible for rediscount.

KANSAS CITY.

Governor Hamilton:

Finance company paper should not be made eligible for rediscount at Federal reserve banks. The usefulness of the Federal Reserve System might be impaired by the inclusion of this class of paper as eligible. It is not the type of paper that the Federal Reserve Act contemplates should be used as security for the issuance of Federal reserve notes.

Finance companies are in competition with member banks and with nonmember banks and have taken from these banks large amounts of paper which, in the hands of member banks, would be eligible. To make finance paper eligible might result in the Federal reserve banks being loaded down with paper that otherwise might have been handled by the member banks or nonmember banks.

Some finance companies are organized by manufacturers and distributors primarily for pushing their products into the market and while there might be some justification for making the paper of such companies eligible on the ground that they are issued for the purpose

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of carrying or marketing goods, this would give these manufacturers and distributors an unfair advantage over competitors. Other finance companies are organized for profit only and the only purpose in the demand that the paper of such companies be made eligible is to give such paper a better rating and to provide it a more ready market.

The handling of retail sales by finance companies is tending to drive out the use of trade acceptances and commercial paper.

Some finance companies have adequate capital and are ably managed, but others have very little capital and are organized for promotion purposes. Furthermore, finance companies are organized for the handling of paper growing out of the sale of many different kinds of commodities and there is a great deal of difference in the collectibility of the notes given for these various types of merchandise. It would be extremely difficult to make a satisfactory classification of the various types of paper which should be admitted to rediscount.

Probably seventy-five per cent of the paper handled by finance companies is not eligible because of maturities and some is not eligible because the notes contain a sales contract and are non-negotiable. Finance companies, therefore, are stirring up "a tempest in a teapot".

DALLAS.

Governor McKinney:

Does not favor making the paper of finance companies eligible for rediscount by Federal reserve banks.

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The proposal for the eligibility of finance company paper comes from the companies themselves, who wish to make their paper more attractive to commercial banks and to secure a more favorable rate of discount. Any such proposal should come from member banks or other disinterested parties.

While it is true that the total amount of eligible paper in the hands of member banks has declined substantially in recent years, the situation will probably be largely corrected in time by the retirement of a substantial portion of long-term obligations which have been used by corporations in recent years as a means of financing themselves.

There is much difference between the paper of agricultural factors and that of finance companies. There is no intermediary between the factor and the producer. The factor is not only the producer's agent for procuring necessary funds but for handling and marketing his commodities. A loan to a factor represents a production credit while an advance to a finance company can at best be regarded only as consumer credit.

The obligations of finance companies are as a general practice renewed from time to time without regard to the liquidation of the installment notes upon which they rest, and such paper, therefore, has some of the characteristics of bonds or debentures.

Notes of finance companies do not represent a type of credit that is essential to the financing of any step in the production and distribution of commodities.

Finance companies are essentially investment bankers and to make their paper eligible would establish a precedent which would invite efforts of other investment bankers to bring about the eligibility of their obligations.

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SAN FRANCISCO.

Governor Calkins:

There are strong reasons for admitting certain classes of finance company paper to eligibility under proper safeguards.

The operations of finance companies might be said to result in transferring the credit burden from inadequately capitalized retail merchants to properly capitalized finance companies. No new demand for credit is created.

Paper of finance companies making advances on floor stocks and not engaged exclusively in financing transactions representing actual sales to ultimate consumers should not be admitted to eligibility.

It should be required that financial statements of finance companies, whose paper is rediscounted, show that the normal liquidation of their bills receivable would be sufficient to retire all of their indebtedness within 90 days.

A specific amendment to the law to make finance company paper eligible is recommended.

Mr. Newton:

The kind of service performed by finance companies and the manner in which it is performed, on the whole, is such that there is no good basis for denying the rediscount privilege to the paper of such companies.

The rediscount privilege, if granted to such paper, should be granted only to the paper of those finance companies -

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(a) which accept business based upon transactions in which the ultimate consumer is the indebted party,

(b) whose business involves only commodities, the usual service life of which exceeds considerably the period covered by the installment contract,

(c) which require a down payment of not less than one-third the purchase price for practically all commodities,

(d) which have a sufficiently strong capital structure and normally, a portfolio with maturities such as not to interfere seriously at any season of the year with the borrowing company's ability to liquidate its borrowings during a three to four months period.

It is questionable whether requirements (b) and (c) are advisable because they may introduce undesirable administrative complications and infringe upon a field which has heretofore been regarded as outside the proper realm of influence of the Federal Reserve System.

Should the tendency of financing business activity through finance companies continue and should the Federal Reserve System not enlarge the field of eligibility, it is possible -

(a) that member banks may be forced to continue placing an increasing and possibly too large proportion of their funds in investments rather than in direct accommodation to business and industry, and

(b) that the financing of business and industry by agencies other than banks may grow to larger proportions than would be good for business generally or for the Federal Reserve System.

Respectfully,

(s) George B. Vest

George B. Vest.
Assistant Counsel

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See Bm

June 14, 1933

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

FROM: Mr. Van Fossen

CONFIDENTIAL

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks during the calendar year 1933 to May 31, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 92 applications refused, as shown in the statement, 58 were because of unsatisfactory security; 33 paper not eligible; and 1 other credit available.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks during the first 5 months of 1933 and the amount of such loans outstanding on May 31, 1933 were as follows:

	Advanced Jan. 1 to May 31 1933	Outstanding May 31, 1933	
		Total	Amount secured by U.S. Govt. obligations
Federal Reserve Bank of Boston			
H.T. Cushman Mfg. Co., No. Bennington, Vt.	$25,000	$25,000	--
Federal Reserve Bank of New York			
Ira R. Crouse, Perth Amboy, N. J.	--	10,000	--
Dorman Bros., Astoria, N. Y.	--	500	--
Empire Tr. Co., New York, N.Y.	*1,000,000	--	--
Foster & Stewart Co., " "	--	75,000	--
Friedman & Sons Co. " "	--	6,000	--
Joseph H. Meyer Bros. " "	--	8,285	--
Miller Cummings Co. " "	116,114	205,353	--
New Jersey Flour Mills Co., Clifton, N.J.	--	10,000	--
Scaramelli and Company, New York, N.Y.	--	7,500	--
L. C. Smith & Corona Typewriters, Inc., N.Y.	150,000	297,500	--
S. Shuff's Sons, Inc., Brooklyn, N.Y.	--	9,083	--

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	Advanced Jan. 1 to May 31, 1933	Outstanding May 31, 1933	
		Total	Amount secured by U.S.Govt. obligations
Federal Reserve Bank of Philadelphia			
Banta Refrigerator Co., Clearfield, Pa.	--	$1,209	--
Darling Valve Mfg. Co., Philadelphia, Pa.	*$15,000	15,000	$15,000
Adam Scheidt, Norristown, Pa.	*67,500	--	--
William T. Tyler, Philadelphia, Pa.	*12,000	12,000	12,000
Raymond E. Winter, Williamsport, Pa.	*400	400	400
Federal Reserve Bank of Cleveland			
American Savings Bank, Cleveland, Ohio	*100,000	100,000	100,000
Bucyrus City Bank, Bucyrus, Ohio	*28,000	28,000	28,000
Thomas B. Carmichael, Akron, Ohio	*1,800	1,800	1,800
Farmers & Merchants Bank, Smithfield, Ohio	*4,900	4,900	4,900
Warren Heldman, Cincinnati, Ohio	*14,000	14,000	14,000
Tuscarawas Sav. & Loan Co., New Phila. O.	*9,550	9,550	9,550
Federal Reserve Bank of Richmond			
Blue Ridge Coal Company, Baltimore, Md.	*2,880	2,880	2,880
K. C. Chinn, Lovettsville, Va.	*200	200	200
R. R. Mellette, Orangeburg, S. C.	*100	100	100
E. A. Talbott, Ellicott City, Md.	*5,000	5,000	5,000
Federal Reserve Bank of Atlanta			
Alden Mills, New Orleans, La.	*8,692	--	--
Atkinson & Co., " "	*600	--	--
Bank of New Roads, New Roads, La.	*7,500	7,500	7,500
Citizens Bldg. & Loan Assn., Rome, Ga.	*30,000	--	--
City Bank & Trust Co., Macon, Ga.	*30,000	--	--
Geo. M. Cox, New Orleans, La.	*2,000	--	--
Empire Trust Co., Atlanta, Ga.	*11,000	11,000	11,000
Federal Land Bank, New Orleans, La.	*300,000	--	--
A. J. Evans, " "	*950	--	--
Granite City Bank, Elberton, Ga.	*25,000	--	--
Dr. Adolph Jacobs, New Orleans, La.	*500	500	500
Lane Cotton Mills, " "	*10,000	--	--
McFadden & West, " "	*600	--	--
New Orleans Stevedoring Co. " "	*2,000	--	--
Bessie Scarborough, Poplarville, La.	*1,000	--	--
Jackson J. Sells, Ft. Myers, Fla.	*3,500	3,500	3,500
Southern Pecan Co., New Orleans, La.	*600	--	--
Geo. S. Weems, Shubuta, Miss.	*4,017	--	--
A. B. Wright, Fayetteville, Tenn.	*600	600	600
Federal Reserve Bank of Chicago			
Indiana Condensed Milk, Co., Indianapolis, Ind.	*67,500	67,500	67,500
International Harvester Co., Chicago, Ill.	*210,000	--	--

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Mr. Morrill - #3

	Advanced Jan. 1 to May 31, 1933	Outstanding May 31, 1933 Total	Amount secured by U.S. Govt. obligations
Federal Reserve Bank of St. Louis			
Gabe Black, Little Rock, Ark.	*$2,000	--	--
Elkhorn Bk & Tr. Co., Arkadelphia, Ark.	*4,750	--	--
Farmers & Merchants Bk., Des Arc., Ark.	*14,060	--	--
Barney Plessner, St. Louis, Mo.	*2,250	$2,250	$2,250
Sachar & Canton, " "	*18,500	9,000	9,000
Federal Reserve Bank of Minneapolis			
Bank of Elk River, Elk River, Minn.	*5,000	--	--
John Benson, Eagle River, Wis.	*3,000	3,000	3,000
Peninsula Oil & Gas Co., Iron River, Mich.	1,000	843	--
M. Ristinen, Menehoga, Minn.	*30,000	17,000	17,000
Federal Reserve Bank of Kansas City			
New Mexico Lumber & Timber Co., Bernalillo, N.M.	38,000	26,290	--
Townley Metal & Hardware Co., Kansas City, Mo.	35,000	34,264	--
Federal Reserve Bank of San Francisco			
Ag. Credit Finance Corpn., Phoenix, Ariz.	*93,000	--	--
Am. Trust Co., Coeur d'Alene, Ida.	*79,000	--	--
H. H. Benjamin, Anaheim, Calif.	*10,000	10,000	10,000
Hibernia Savgs. & Loan Society, San Francisco, Calif.	*1,000,000	--	--
J. L. McCarthy, Orafino, Calif.	*3,400	3,400	3,400
Santa Cruz County B. & L. Assn., Santa Cruz, Calif.	*18,000	18,000	18,000

*Secured by U. S. Government obligations.

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APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED BY THE FEDERAL RESERVE BANKS - TO MAY 31, 1933

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Federal Reserve Bank	Number of applications not granted		Total number of applications not granted, January 1 to May 31, 1933	Reasons for not granting loans applied for			Amount of loans declined Jan. 1 to May 31, 1933*
	May, 1933	April, 1933		Paper not eligible	Paper not satisfactorily secured	Other credit available	
Boston	--	--	--	--	--	--	--
New York	6	6	38	8	30	--	$3,430,400
Philadelphia	--	1	4	--	3	1	30,500
Cleveland	--	--	3	3	--	--	15,000
Richmond	--	--	1	--	1	--	10,000
Atlanta	6	2	15	6	9	--	674,100
Chicago	5	2	20	14	6	--	347,800
St. Louis	--	--	1	--	1	--	5,000
Minneapolis	3	--	6	1	5	--	61,000
Kansas City	1	1	2	1	1	--	55,300
Dallas	--	--	1	--	1	--	20,000
San Francisco	1	----	1	--	1	--	5,000
Total	22	12	92	33	58	1	4,654,100

*Approximate; amounts sometimes not stated.

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