

## The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 245, FRBoard Members

205.001 - Hamlin Charles S  
Scrap Book - Volume 245  
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

*M.P.C.*

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 245 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 245

- Page 11 - Reappointment of Wayland W. Magee as a member of the F.R. Board.
- Page 31 - Memo to Mr. Hamlin from Mr. Goldenweiser in re banking holiday.
- Page 35 - Confidential - Proposal for temporary stabilization of currencies.
- Page 43 - Telephone Message from Gov. Harrison re temporary stabilization of the pound and the dollar against the franc.
- Page 45 - Copy of cable received by F.R.Bk. of N.Y. from Gov. Harrison re control of foreign exchange.
- Page 47 - Memo to Gov. Black re effect of Glass Bill upon salaries of members and employees of the F.R. Board.
- Pages 49 & 53 - Communications from Bank of England with F.R.Bk. of N.Y. re stabilization plans.
- Page 55 - Reasons for a plan of temporary stabilization. (Telephone from Dr. Burgess)
- Page 57 - Memo to Mr. Hamlin from Gov. Black giving draft of a proposed arrangement between the Bank of England, Bank of France and F.R.Bk. of N.Y.
- Page 59 - Memo to Mr. Hamlin from Mr. Goldenweiser re rates charged small borrowers.
- Pages 75 & 77 - Memo to Gov. Black from Mr. Wyatt re Power to Restrain Speculation in Stocks and Bonds.
- Pages 79 - Memo to Mr. Hamlin from Mr. Smead re Reserve Bank Credit, March 1 to June 28, 1933.
- Page 85 - Letter to Gov. Black from Gov. Harrison submitting report of the discussions in London in which he participated from June 11 to June 17 separately with the representatives of the Bank of England and the Bank of France, and jointly with representatives of our Treasury, the British and French treasuries.
- Page 89 - Confidential letter from Gov. Black to Under Secretary Acheson re gold standard.
- Page 93 - Data re President's message asking F.R.Bk. of New York to earmark 20,000,000 of gold for the Bank of England.
- Page 97 - Confidential report of Business and Credit Conditions.

- Page 100 - List of banks in good condition by F.R. Districts.  
Page 101 - Preliminary Memorandum for the Open Market Committee.  
Page 147 - Preliminary Memo for the Federal Open Market Committee,  
October 10, 1933.  
Page 149 - Report of Open Market Operations to meeting of the Federal  
Open Market Committee held in Washington on October 10, 1933.  
Page 153 - Business and Credit Developments - Confidential.



See No

REAPPOINTMENT OF WAYLAND W. MAGEE AS A  
MEMBER OF THE FEDERAL RESERVE BOARD.

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There already being two vacancies in the membership of the Federal Reserve Board, it is very important that the nomination of Mr. Wayland W. Magee for reappointment as a member of the Board be confirmed by the Senate before his present term expires on January 24, 1933, in order that the membership of the Board may not be reduced to such a small number that the Board would be unable to exercise certain very important powers for which the law requires five affirmative votes.

The Federal Reserve Act provides for eight members of the Federal Reserve Board, including the Secretary of the Treasury and the Comptroller of the Currency as ex officio members, but there are two vacancies on the Board, owing to a vacancy in the Office of the Comptroller of the Currency and the failure to appoint a member to succeed Governor Young as a member of the Federal Reserve Board. If Mr. Magee were not confirmed by January 24, 1933, his office would become vacant and there would remain on the Federal Reserve Board only five members, including the Secretary of the Treasury.

The following provisions of the Federal Reserve Act, among others, require five affirmative votes of the members of the Federal Reserve Board in order for the Board to take action on certain matters of unusual importance:

Sections 10(a) and 10(b) of the Federal Reserve Act,  
as amended by the Glass-Steagall Act, authorizing advances to  
member banks on ineligible paper in exceptional and exigent  
circumstances.



Section 16 of the Federal Reserve Act, as amended by the Glass-Steagall Act, authorizing Federal reserve banks to pledge and Federal reserve agents to accept, obligations of the United States as security for Federal reserve notes.

Section 13 of the Federal Reserve Act, as amended by the Act of July 21, 1932, authorizing Federal reserve banks to discount paper for individuals, partnerships and corporations in unusual and exigent circumstances.

Section 11(b), authorizing the Federal Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks.

Section 19, authorizing the Federal Reserve Board to reduce the reserve requirements of banks in outlying sections of reserve and central reserve cities.

As there would be only four appointed members left, if Mr. Magee were not confirmed before January 25, it would be necessary for the Secretary of the Treasury personally to participate in every application before the Board, and in the case of the illness of any one member of the Board, the Board would be absolutely stalled. How long after March 4, 1933, this condition would exist, it is, of course, impossible to foresee.

In addition to the emergency situation described above, the following considerations would justify making an exception to the policy which apparently has been adopted by the Senate of not confirming appointments



made by the President for terms expiring after March 4:

On the incoming of the new administration, even if Mr. Magee is confirmed prior thereto, the President will have to fill the present vacancy (succeeding Governor Young); he will also have to appoint the two ex officio members -- the Secretary of the Treasury and the Comptroller of the Currency, making three in all.

In addition, during his first term of office, he will have to make appointments to fill the terms, as they expire, of Mr. Miller and Mr. Hamlin. Mr. Miller's term expires on August 9, 1934, and Mr. Hamlin's on August 9, 1936, making five appointments in all over and above that of Mr. Magee, should he fail of confirmation.

The purpose of the original Federal Reserve Act in providing ten year terms for the appointive members of the Federal Reserve Board and arranging those terms so that not more than one of them would expire in any two years, was to provide for a continuity of membership and stability of policy on the part of the Board; and this principle has been observed by the reappointment of all members who have served until the expiration of their terms, except Mr. Warburg (who declined reappointment), Mr. Moehlenpach and Governor Harding. Thus, upon the expiration of their terms, Mr. Hamlin was reappointed, first, by President Wilson, and later by President Coolidge; Mr. Miller was reappointed by President Coolidge; and Mr. James, by President Hoover.

Mr. Magee was appointed to the Board to succeed the late Mr. Edward H. Cunningham, who had been appointed under the provisions of the Act of June 3, 1922, which provided for an additional member of the



Federal Reserve Board with the understanding that such additional member would represent the agricultural interests. Mr. Magee is exceptionally well qualified to fill this position, not only because he has long been personally engaged in the active management of a large ranch in Nebraska, but also because he has served since May, 1931, as a member of the Federal Reserve Board and had previously served, under successive appointments by the Federal Reserve Board, as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City, and as a Class C director of the head office of the Federal Reserve Bank of Kansas City and is familiar with the practical operation of Federal reserve banks in agricultural districts and with the financial problems of the farming and live stock interests.

The following is a list of the present appointed members of the Federal Reserve Board, with the dates of the expiration of their present terms:

1. Vacancy (Successor to Gov. Young)  
1932, Aug. 10 - 1942, Aug. 9.
2. Mr. Magee Expires 1933, January 24.
3. Mr. Miller " 1934, August 9.
4. Mr. Hamlin " 1936, August 9.
5. Gov. Meyer " 1938, August 9.
6. Mr. James " 1940, August 9.



## Office Correspondence

FEDERAL RESERVE  
BOARD

Date June 3, 1933

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2-8495

Following are some notes prepared in accordance with your request, to be used in connection with your Boston talk:

On March 4, due to the declaration of the bank holiday, gold payments were suspended in this country. This act, though technically it may constitute a departure from the gold standard, was more in the nature of a temporary suspension of gold payments together with payments of all cash. It was a necessary part of the general suspension of banking activity. On April 5, the President issued an order requiring all holders of gold, with certain minor exceptions, to turn it in to the Treasury. This order was motivated by the fact that many persons had turned in gold as a result of telegrams sent out by the Federal Reserve Board asking that the names of gold holders be compiled and possibly published. It was felt that those who had not turned in gold voluntarily or semi-voluntarily ought to be made to do so. The order of April 5 also provided that the Secretary of the Treasury was authorized to license withdrawals of gold for all legitimate uses including exports on commercial account. This authorization was interpreted as a return to the international gold standard and this interpretation was strengthened by the fact that licenses for gold export were actually granted. On April 19, the Administration's position in the matter was reversed when the President issued an additional order prohibiting gold exports except when in his own judgment they were in the public interest. This order, of course, excluded gold previously earmarked by foreign central banks, and governments.

The motives for the departure from the gold standard, which should be



dated April 19, were never definitely revealed. The President's statement that it is impossible to redeem all contracts in gold because there are about \$100,000,000,000 of gold contracts and only \$4,000,000,000 of gold is not convincing because it would be equally applicable at any time, rather than only at the present time; it is essentially equivalent to saying that in a credit economy it is impossible to redeem all debts in cash. It may be surmised that the reason for the departure from the gold standard was that Congress was expected to pass some form of mandatory inflationary legislation either in the form of remonetization of silver at a fixed rate with gold, in the form of greenback issues, or in the form of devaluation of the gold content of the dollar. With legislation of this sort pending and having a considerable chance of adoption, the President felt that it was best to preserve the country's gold through tightening the embargo and to back the Thomas amendment to the Farm Bill, which gives him authority to pursue practically any of the proposed methods of inflation if, when, and as he sees fit. It would not have been possible to remain on the gold standard in the face of the threatened legislation or in the face of the powers vested in the President of the United States by the Thomas amendment. In other words, since inflationary legislation appeared inevitable, the President felt that it was best to protect our gold and to assume responsibility for adopting such inflationary measures as the carrying out of the Administration's general program of recovery may make necessary.

The recent proposal which is now pending in Congress abrogating gold clauses in all public and private contracts and making all contracts payable in legal tender is in substance only a legalization of the existing status.



On May 1 and May 2, the Government had decided to pay coupons on outstanding Government obligations and maturing issues in paper money. It also decided to make no distinction in this respect between American and foreign holders. This decision was presumably on the ground that the foreign holders had come into our market and bought our securities and were therefore taking potluck with American purchasers. They were not entitled to preferential treatment, the case being very different from that where a foreign country offers the citizens of another country bonds in the markets of the latter country with a gold clause protecting the purchasers against fluctuations in exchange. It is this latter sort of obligation that the French are now paying in the equivalent of gold. It is true that the abrogation of the gold clauses is technically repudiation, but it is also true that the imposition of increased indebtedness on all those borrowers who happen to have gold clauses in their obligations would have been ruinous to many institutions including the railroads, would impose an enormously heavy burden on the taxpayers through increasing the public debt, and would be in general contrary to public policy. Gold clauses are in their nature contrary to public policy. They are entirely meaningless in ordinary times and become essentially unenforceable whenever they are wanted. On the ground of the broader interests of the public at large, it would seem to be an inalienable right of sovereignty to abrogate such obligations.

At this time it is difficult to say what the final outcome will be. The trading position of the United States is such that the dollar would normally not be at a discount in world markets if all restrictions were removed. Its present decline is a reflection of speculative expectations of inflation.



It may be, however, that after having declined the dollar would not rise again to parity even were all restrictions removed. It is clear in general that the interest of the United States as well as of other countries of the world lies in the revival of international trade and that this revival depends upon the ability of all important trading countries to sell enough goods and services abroad to pay for their imports. Artificial barriers through currency depreciation are therefore contrary to the general interest. It is expected that the International Economic Conference in London will work out a program of joint action in this matter that will not be swayed by narrow views of temporary nationalistic advantages but will be based on the recognition of the essential unity of purpose and interest among the great trading nations of the world.

We have had a decade of very heavy mortality among the banks. As the central supervisory body over the banking system, the Federal Reserve Board naturally has been greatly concerned. The Federal reserve system has done a great many things and has exerted infinite effort to alleviate the situation by coming to the aid of a great many banks. The responsibility for the failures, however, does not rest on the Federal reserve system. It rests, in the first instance, on world conditions resulting from a destructive war followed by world-wide currency disorganization and uncontrollable movements of gold. It rests, in the second place, upon supervisory authorities, who during boom times were inclined to let their hopes exceed their caution in respect to banking practices. It rests, in the third place, on legislation which has permitted the development of a competition in laxity between the national and the State banks; and it rests, in the final analysis,



upon human nature which leads man to move in groups, see everything in an exaggeratedly optimistic light during a period of boom and in an exaggeratedly pessimistic light during a period of depression.

The Federal reserve system ~~may~~ be improved to some extent by the ~~pend-~~ing Glass Bill. Banking supervision can be improved, and it is hoped that it will be, by that and other legislation, but real, fundamental improvement in the banks must arise from gradual recognition by bankers and the public of the fact that banking is an activity invested with the public interest and that the responsibilities of bankers are greater than those of other business men because they have control of funds belonging to vast multitudes of people who are not in a position to keep a watchful eye on their property. One hopes that out of the present ordeal there will come a higher sense of duty on the part of bankers, a keener sense of responsibility on the part of supervisory authorities, and a better banking tradition supported by enlightened public opinion.



See No

CONFIDENTIAL

PROPOSAL FOR TEMPORARY STABILIZATION OF  
CURRENCIES

The proposal which was received on June 15 by Dr. Burgess from Governor Harrison in London may be summarized as follows:

(1) The governments of the United States, England, and France would agree to a temporary stabilization of the pound and the dollar in relation to the franc. For example, the ratios might be 4.7 cents to the franc and 86 francs to the pound.

(2) The Bank of England, the Bank of France, and the Federal Reserve Bank of New York would then adopt the following procedure, which will be outlined here first in terms of operations of the New York bank.

This bank would set aside four or five million ounces of gold, say, \$100,000,000 at the present mint value. It would use this fund for the purpose of keeping the exchange value of the dollar within a spread of 3 per cent around the level agreed upon by the governments. Assume that the level agreed upon is \$4.70 per 100 francs. If the franc rose to the point where it took \$4.77 to buy 100 francs, the Federal Reserve Bank of New York would sell francs. The procedure would be to buy francs from the Bank of France, pay for them by setting aside for account of the Bank of France an equivalent amount of gold in New York, and then sell in the American market the francs so acquired. If the franc, on the other hand, declined to \$4.63 per 100 francs, the Federal Reserve Bank of New York would buy francs in the New York market and convert the francs so acquired

Q35



into gold to be earmarked for the account of the New York bank at the Bank of France. Gold earmarked for account of a foreign central bank under these agreements would at all times be available for export without restriction.

The operations would terminate when the full amount of gold set aside for the purpose had been utilized by any one of the three countries, no time limit being indicated. At such a time the agreement could be renewed or not as the countries saw fit—at the same or at a different rate.

The Bank of France would operate presumably on the same principle as the Federal Reserve Bank of New York, but it would seem that it might operate either in dollars or in sterling, although the communication from Governor Harrison is silent on this point. The Bank of England would operate either in francs or directly in gold in the open market in London.

(3) This arrangement "would depend upon a satisfactory declaration by the three governments that they would attempt no overt act to disturb the exchanges during the arrangement, except in the case of some unforeseen domestic emergency."

(4) Governor Harrison states that if the New York bank should acquire gold under this arrangement upon the basis of the agreed rate, and if the dollar should ultimately be stabilized in gold at a higher rate, the New York bank should be reimbursed for the difference by the government. In this connection he mentions the fact that in case the dollar be devalued the profits from the devaluation would probably be required to be turned over to the government.



(5) This whole proposal was submitted to the directors of the New York bank and approved by them on June 15, subject to the approval of the Federal Reserve Board, it being understood that the plan would not become effective until approved by the United States Government.

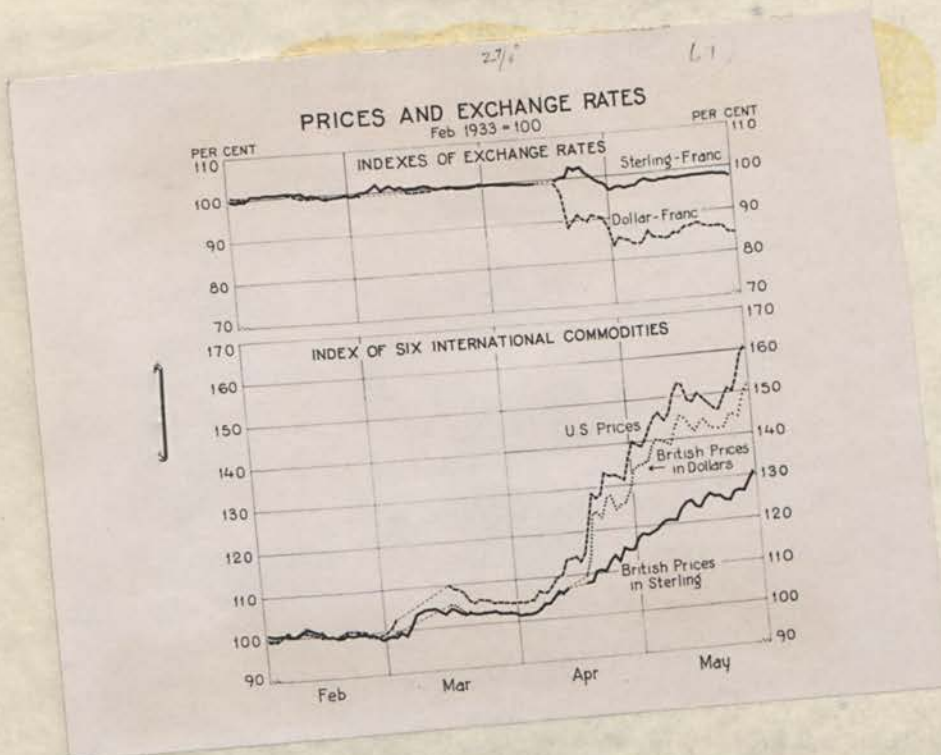
The communication from Governor Harrison indicates that an official request to the Government is likely to come from Professor Sprague tomorrow and Under Secretary Acheson stated that this communication will in all probability present some of the economic and other considerations on which the proposal is based, which are not set forth in Governor Harrison's communication.



### Comment

The principal advantages of the proposal would be the discouragement of further speculation in the exchanges and the stimulus to international trade arising from the removal of fluctuations in the exchanges. It is quite evident that large-scale bear speculation in the dollar has been under way and this proposal would put a stop to further operations of that sort.

On the other hand, the adoption of this proposal might have certain unfavorable economic effects. Price advances in the United States have been at a much more rapid rate than in other countries, as shown on the attached chart. Stabilization would tend to eliminate the spread between



American prices and world prices. World prices and American prices would be sure to converge and meet at some point, and the immediate effect would probably be a decline from the present level of American prices. This would have a deterrent effect on the business revival that has recently occurred.



In the second place, the proposal would be construed as an indication of the level at which the dollar was likely to be stabilized permanently. In view of the program of the Administration, which involves a large additional volume of Government indebtedness, and which does not preclude resort to credit and currency inflation, and in view of the many uncertainties in the economic situation, it may be considered too early to give even a preliminary indication of the level at which the dollar will ultimately be stabilized.

The proposal states that the governments shall undertake to perform no overt act that would affect the exchanges. This phrase is rather blind and ought to be elucidated; the question arises whether, in view of the possible effects on the value of the dollar of the domestic program of the Administration, it could commit itself to this extent.

It may be mentioned also that stabilization of the dollar at its present level, which is approximately 83 per cent of par, would guarantee profits to speculators who have been selling dollars short.

There are certain incidental questions that are not answered by the statement from Governor Harrison. It is not clear what legal authority is possessed by the Administration to guarantee the reserve bank against loss, if the dollar were devalued at a higher level than the rate agreed upon for temporary stabilization. The question has also arisen whether this is to be an operation solely by the New York bank or whether the other reserve banks may be invited to participate. In any event the operations would be comparable in their effects on member bank reserve balances to sales or purchases of United States Government securities by the Federal reserve banks.

QB5



See Mr.

June 15, 1933.

TELEPHONE MESSAGE FROM GOVERNOR HARRISON.

(Dictated by Miss Holmes, Secretary to Dr. Burgess)

Referring to paragraph 9 of your cable number 11. We have tried in our telephone calls of Monday and Tuesday and again today to keep you currently posted of conversations as they have proceeded and have asked you to advise Governor Black. We have not cabled because as pointed out in our telephone calls no agreement has been reached nor until today had we anything approaching a definite recommendation. We have merely explored various suggestions and proposals, none of which have been sufficiently concrete to propose for your consideration. There has been nothing to propose for approval either by our Board or by the Federal Reserve Board. We would not feel free to recommend any particular plan for approval unless or until we are advised by the respective governments that they are in agreement with any particular program that we might work out. This has not been done. It now begins to look, however, that we may be in a position today or tomorrow to recommend, subject to the approval of the government, the technical details of a plan for a temporary stabilization of the pound and the dollar against the franc within certain spreads to be agreed upon. In brief, the plan would be one under which each of the three central banks would agree to expend up to four or five million ounces of gold in order to hold the exchange within the plan agreed upon. This spread will probably be about 3% of the level of rate which has not been decided by the treasuries. It seems likely that they will agree upon rates somewhere near the present level. Under the arrangement which we are considering, the Federal reserve bank would intervene in the exchange market fixing the buying and selling prices for

B4/B



frances and to the extent that we buy francs we would convert them into gold at once, the gold to be earmarked for our account with the Bank of France free for export. To the extent that we had to sell francs we would acquire them against gold earmarked by us in New York for account of the Bank of France free for export. In other words, all purchases and sales of francs which we would make under the arrangement would be immediately settled in gold. The Bank of England would operate in a similar manner against the French franc although to some extent they would also buy and sell gold in the open market to accomplish the same purpose. The final agreement between the three central banks would roughly be some arrangement as this and would depend upon a satisfactory declaration by the three governments that they would attempt no overt act to disturb the exchanges during the arrangement except in the case of some unforeseen domestic emergency. It may be necessary for us to act promptly tomorrow. We would therefore like you to suggest the arrangement to the Board of Directors with the request that if they approve of the arrangement they authorize the officers in the usual form subject to the approval of the Federal Reserve Board, to negotiate the arrangement along the general lines indicated and do such things as may be necessary to carry it out providing our government agrees. The arrangement would contemplate that it would remain effective at the agreed rate until any one of the three banks has expended the agreed amount of gold and when that amount had been reached by any one of the three, the agreement would be subject to renewal for the same or new amounts at the same or new rate to be immediately agreed upon by all three parties. In the event that there is no such mutual agreement



the arrangement would terminate. Our directors' approval of any such arrangement would be predicated upon our government's approval of our entering into such an arrangement as would also be the case with the other two banks. As Sprague may tomorrow request the appropriate authority of our government, we want to be sure that we are prepared to proceed as rapidly as the others. This covers the question of risk so far as the arrangement itself is concerned. There is one point, however, where we must obtain some form of protection from our government. That is, that if we acquire gold under this arrangement at the new rate of the dollar to be agreed upon, and if the dollar should ultimately be stabilized in gold at some rate above the rate agreed upon in this arrangement, we would want some sort of reimbursement from our government, just as we would probably be expected to give our government profits in gold in the event that the dollar should be revalued below the old parity. If any further question arises today with regard to the arrangement you can of course telephone to us at the Berkeley Hotel. We suggest that you dictate a copy of this entire conversation verbatim to Governor Black at once so that he may be advised just as promptly as our directors are and may be in a position to discuss it with the Board in the event that our directors should approve. Furthermore, please send a copy to Secretary Woodin at Sprague's request. We must remember, however, that no arrangement which we may be prepared to make can possibly be entered into unless and until the three governments have expressed their approval of it and have given the necessary declaration referred to above. All plans and details of the proposed arrangement are to be absolutely secret and even if an



arrangement is reached nothing is to be published except a very general statement to be agreed to by the governments. While we may be too optimistic we are hopeful we may be able to sail on the Bremen on Sunday which is another reason we are anxious to pave the way over there as soon as possible.

843



June 15, 33

Following is a cable received this morning by the Federal Reserve Bank in New York, from Governor Harrison:

(1) Recent fluctuations in exchange rate seem to us disturbing and undesirable, particularly at this time. We believe, therefore, that steps should be taken promptly to check any further advance in the foreign exchange rates against the dollar. Although we do not know the cause, it is probable that transfers of capital from United States and speculative operations against the dollar have increased in the past week or two. On a very thin market these transactions naturally result in unduly wide movements of the rate.

(2) We suggest that if you and the Treasury agree the control of foreign exchange in New York should be tightened by having Kent and Knoke telephone to banks and bankers who are principal dealers, inquiring of them the cause of recent rise in Sterling and Franc, asking whether they have seen any evidence of capital flights or speculation and reminding them of the President's order which, after all, prohibits such transfers of capital as appear to represent flights from the dollar, and also to speculative operations against the dollar. It is particularly important we believe to telephone such private bankers as Lazard Freres.



(3) We think it desirable to tighten the control in this manner without publicity and without issuing any new written instructions.

(4) This message is agreed to by Harrison and Sprague, but presume you will discuss it with Acheson before action. Sprague feels strongly that control should be tightened, as suggested.

(The above dictated by Dr. Burgess.)

P45



Sum

June 15, 1933.

Governor Black

Mr. Wyatt, General Counsel.

Effect of Glass Bill upon salaries  
of members and employees of the Federal  
Reserve Board.

I understand that you desire a memorandum regarding the effect of the following provision of Section 10 of the Federal Reserve Act, as amended by the Banking Act of 1933, upon the salaries of the <sup>members of the</sup> Federal Reserve Board and its employees:

"The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys."

It appears that the general purpose of this provision is to recognize the fact that the funds derived by the Federal Reserve Board from its assessments on Federal reserve banks are not government funds or appropriated moneys and to make it clear that the expenditures of such funds is to be controlled by rules and regulations prescribed by the Board rather than by the general statutes governing the expenditure of government funds appropriated from the Treasury of the United States.

It is specifically provided that the salaries of the members of the Federal Reserve Board and its employees shall be governed solely by the provisions of the Federal Reserve Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith.

The basic salaries of the members of the Federal Reserve Board are fixed by Section 10 of the Federal Reserve Act at \$12,000 per annum,

B4 7



The Federal Reserve Board is authorized by Section 11(1) of the Federal Reserve Act to fix in advance the salaries and fees of its employees and the Board has fixed the basic compensation of all of its employees pursuant to this authority.

Under authority of the Act of March 20, 1933, referred to as the Second Economy Act, however, the compensation of all officers and employees of the United States, including members and employees of the Federal Reserve Board, was reduced by the percentage determined by the President of the United States in accordance with the provisions of the Act, namely 15 per cent. Upon the effective date of the compensation reductions contained in the Act of March 20, 1933, the salaries of the Board's members and employees were reduced pursuant to the statute without any action on the part of the Federal Reserve Board with respect to the matter.

As shown above, the Federal Reserve Act as amended by the Glass Act provides that the employment and compensation of its members and employees shall be governed solely by the Federal Reserve Act, specific amendments thereof and rules and regulations of the Board not inconsistent therewith. Provisions of acts other than the Federal Reserve Act heretofore effecting the compensation of the members and employees of the Federal Reserve Board are, therefore, no longer applicable. Accordingly, the reduction in such compensation pursuant to the Act of March 20, 1933, is no longer effective.

It is my opinion, therefore, that, as of the date of the passage of the Glass Act, the salary of each member of the Federal Reserve Board reverts automatically and without any action upon the part of the Federal Reserve Board



or of any other official or agency to the amount fixed by the Federal Reserve Act, i.e. \$12,000 per annum; and that likewise, in the absence of action by the Federal Reserve Board to the contrary, the salaries of the employees of the Federal Reserve Board revert automatically to the amounts fixed by the Federal Reserve Board pursuant to the provisions of Section 11(1) of the Federal Reserve Act prior to the act of March 20, 1933. The employees of the Federal Reserve Board who have been employed since the Act of March 20, 1933, have been employed at a basic salary less the reduction required pursuant to that Act and, accordingly, the salaries of such employees, also, in the absence of action of the Board to the contrary, revert as of the date of the enactment of the Glass Act to the basic salaries fixed by the Board for such employees.

It is interesting to note in this connection that the Glass Bill also contains an amendment to the Federal Reserve Act which eliminates the requirements heretofore existing that the Federal reserve banks pay a franchise tax to the United States. Hereafter, all net earnings after payment of expenses and dividend claims shall be paid into the surplus funds of the banks. It is obvious, therefore, that the amount of compensation paid to members or employees of the Federal Reserve Board will not in any way affect directly or indirectly the revenues or receipts of the United States Treasury.

In this connection, it is also important to note that the purpose of the Economy Act is to aid in balancing the budget of the Government by reducing the expenditure of funds appropriated from the Treasury; whereas, the funds derived from assessments on banks do not affect the Government's budget and a reduction of the expenditures of such funds merely reduces the amount



- 4 -

which it is necessary to assess upon the banks. This was recognized in the first Economy Act, which specifically exempted the salaries of all persons whose compensation was derived from assessments on banks.

Respectfully,

Walter Wyatt,  
General Counsel.

WH:SW

Q47



32/34

London June 16 1933

Federal Reserve Bank of New York N. Y.

No. 259-33

CONFIDENTIAL FOR BURGESS.

Governor Harrison has asked us to send you this draft of proposed arrangement between three banks of issue. He would like you to send copies for strictly confidential use to Governor Black and Secretary Woodin at once explaining that draft of proposed governmental declaration is being cabled to Secretary Woodin by Sprague.

ONE. Subject to the adoption by the three governments of the declaration the draft of which has been communicated to them by the representatives of the treasuries and which is annexed to the present, the representatives of the three banks of issue (would hereby be willing to) recommend the following procedure pending the developments of the conference.

TWO. (a) The Bank of England will use its best endeavors to maintain the sterling price of gold between (     ) and (     ) per fine ounce, and, if necessary to this end, agrees to lose gold up to a net amount of (     ) fine ounces.

(b) The Federal Reserve Bank will use its best endeavors to maintain the dollar between (     ) and (     ) in terms of the French gold franc, and, if necessary to this end, agrees to lose gold up to a net amount of (     ) fine ounces.

(c) The Bank of France will be ready to deliver on demand to the two other banks any amount of gold corresponding to deliveries of their purchases of francs.

THREE. As soon as any one of the three banks of issue shall have lost under this arrangement a net amount of (     ) fine ounces of gold, this



arrangement shall terminate, but may be renewed with the same or new amounts and the same or new rates, by mutual agreement between the three banks.

FOUR. Only gold delivered to or earmarked free for export for banks of issue or the Bank for International Settlements will be counted for the purposes of Article 2 (a) and (b) and Article 3 of this arrangement.

FIVE. While each of the three banks of issue may within their powers dispose of their foreign exchange holdings, nevertheless, so far as this agreement is concerned, the transfer into gold and/or devisen of the Bank of England existing dollar balances shall be subject to mutual agreement between the Bank of England and the Federal Reserve Bank of New York.

SIX. In order to insure its effective operation, all the terms of this agreement must be absolutely secret. Any public announcement should be limited to a declaration by the Governments that pending developments of the conference a temporary arrangement has been agreed to between the three banks to ensure reasonable stability of currencies and that the governments concerned have given the three banks the necessary approval to proceed with the arrangement.

CHIEF CASHIER BANK OF ENGLAND

P 49



London June 16 1933

Federal Reserve Bank of New York N. Y.

No. 259-33

CONFIDENTIAL FOR BURGESS

Governor Harrison has asked us to send you this draft of proposed arrangement between three banks of issue. He would like you to send copies for strictly confidential use to Governor Black and Secretary Woodin at once explaining that draft of proposed governmental declaration is being cabled to Secretary Woodin by Sprague.

ONE. Subject to the adoption by the three governments of the declaration the draft of which has been communicated to them by the representatives of the treasuries and which is annexed to the present, the representatives of the three banks of issue would be willing to recommend the following procedure pending the developments of the conference.

TWO. (a) The Bank of England will use its best endeavors to maintain the sterling price of gold between (     ) and (     ) per fine ounce, and, if necessary to this end, agrees to lose gold up to a net amount of (     ) fine ounces.

(b) The Federal Reserve Bank will use its best endeavors to maintain the dollar between (     ) and (     ) in terms of the French gold franc, and, if necessary to this end, agrees to lose gold up to a net amount of (     ) fine ounces.

(c) The Bank of France will be ready to deliver on demand to the two other banks any amount of gold corresponding to deliveries of their purchases of francs.

THREE. As soon as any one of the three banks of issue shall have lost under this arrangement a net amount of (     ) fine ounces of gold, this



arrangement shall terminate, but may be renewed with the same or new amounts and the same or new rates, by mutual agreement between the three banks.

FOUR. Only gold delivered to or earmarked free for export for banks of issue or the Bank for International Settlements will be counted for the purposes of Article 2 (a) and (b) and Article 3 of this agreement.

FIVE. While each of the three banks of issue may within their powers dispose of their foreign exchange holdings, nevertheless, so far as this agreement is concerned, the transfer into gold and/or devisen of the Bank of England existing dollar balances shall be subject to mutual agreement between the Bank of England and the Federal Reserve Bank of New York.

SIX. In order to insure its effective operation all the terms of this arrangement must be absolutely secret. Any public announcement should be limited to a declaration by the Government that pending developments of the conference a temporary arrangement has been agreed to between the three banks to insure reasonable stability of currencies and that the governments concerned have given the necessary approvals to proceed with the arrangement.

CHIEF CASHIER BANK OF ENGLAND

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London June 16.

SaMm

Federal Reserve Bank of New York

Number FOUR Personal and confidential for Burgess. This cable is sent in several sections. This is Section ONE.

ONE. The following is by way of review and summary to date. As you know, we arrived last Friday night and beginning Saturday morning we have had almost continuous sessions with the representatives of the Bank of France and the Bank of England, separately, jointly, and conjointly with representatives of the three Treasuries. Discussions have of necessity been protracted due to differences in language and especially complete difference of approach. HARRISON

Section TWO.

TWO. Generalizing at the outset, it appeared that the French wanted to insist on some form of immediate and definite stabilization, not necessarily de jure, but at least de facto, at a specific rate and indefinitely pending de jure stabilization. The British, on the other hand, were inclined to do nothing very definite, believing that it is impossible at the present time to determine what is a fair rate for either the pound or the dollar during present disturbed economic and political conditions. We might be said to have taken the middle course, that is, that de jure stabilization now is out of the question; that de facto stabilization in the sense in which the French meant it at a fixed and definite rate for a more or less indefinite period would be unwise, if not impossible, for us, but that some leveling out of the fluctuation in exchange rates by an agreement to keep them within a specified spread might be undertaken, certainly pending the developments of the conference. All through the discussions we have held to the view that it would be most important to attain some measure of stability for the period of the conference.

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PAGE 53

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THREE. While we are here as the result of an invitation from the French Government, neither the French treasury people nor the Bank of France have suggested or proposed any specific plan other than definite stabilization, which, I think, they fully realize was impossible now.

This is Section THREE, number FOUR.

FOUR. We, on the other hand, in response to an inquiry from the Treasury representatives on Monday evening suggested for consideration the possibility of an exchange agreement by which each of the three banks would agree to expend a certain amount in an effort to keep each of the three exchanges within certain prescribed limits, this to be more or less for the period of the conference. It was understood that our suggestion would comprise an agreement which in effect would put the risk of depreciation of any one of the three currencies on the country whose currency depreciated below the limit to be specified in the agreement.

FIVE. Norman objected to this on the ground that he did not want to buy any more foreign exchange, even with the guarantee that at the end of a specified period it would be liquidated in gold at the rate at which it was bought.

#### SECTION FOUR,

SIX. Norman then suggested the possibility of an arrangement whereby the Bank of England and the Federal Reserve Bank would each agree to buy and sell gold at specified and published rates, that is, rates which would in effect keep each of the two exchanges within whatever spreads might be agreed upon. The proposal contemplated that each bank would agree to sell



a certain specified but not published amount of gold at the rates published and if that amount should be used up, the deal was subject to renewal by mutual consent for new or the same amounts and new or the same rates. This would have meant, for instance, that if the pressure on the dollar was such as to require us to sell up to the agreed amount at an agreed selling rate, we would then be in a position either to terminate the whole arrangement or to enter a new one for new amounts at revised or the same rates.

SEVEN. Under this arrangement the Bank of France would not have had to participate because it is already on gold. We thought this suggestion objectionable largely because we have no established gold market in New York and more particularly because it would risk being misunderstood by our public as a definite return to the gold standard at whatever rates were published and in the event of an early expenditure of the amounts agreed upon followed by subsequent readjustment of the rates which would have to be published, uncertainty and confusion would undoubtedly result, and more harm than good would be done.



Section FIVE,

**EIGHT** On Wednesday night we began to explore the suggestion about which we telephoned to you specifically yesterday for consideration by our directors and the Federal Reserve Board. It is not necessary to outline that proposal in this message although it should be pointed out that such an arrangement would not involve publication of the spreads in regard to rates nor the amounts to be expended in order to keep the exchanges within those spreads. It would give us a fair chance by trials and errors to test out the stability of existing rates or whatever rates might be agreed upon and in the event that conditions should put such pressure on one or the other of the exchanges as to force the expenditure of the agreed amount of gold then the country losing the gold would have the opportunity either to terminate the arrangement or to renew it for new amounts at the same or a lower rate. If on the other hand, the rates agreed upon prove by experience to be fairly stable the agreed amount of gold would not have to be expended. The rates would be kept within the agreed points and the arrangement would continue pending the developments of the Conference. Yesterday when we telephoned to you the Bank of England had expressed their willingness to enter into such an arrangement provided that a satisfactory declaration was agreed to by the governments. The Bank of France would also be willing to accept it provided the declaration of the government was satisfactory. We have not yet said definitely that we would recommend it because of a technical snag which we have been trying to iron out. The snag arises in such a case as this: If the dollar is strong and we have to buy francs and sell dollars within the specified range, there is a gap of forty-eight hours before francs so



purchased are actually delivered and convertible into gold. While the risk of this forty-eight hours is perhaps negligible, especially as we would no doubt have at least that amount of warning of difficulty with the franc even in the remote contingency that anything but\* should be done about the franc, nevertheless we are trying to minimize even any technical risk in that period. I have argued each should take the risk of his own currency and that, therefore, francs so purchased should be reduced to gold as soon as purchased whatever might happen in the intervening forty-eight hours. The Bank of France contends they have no authority under their monetary laws to sell gold in advance of the actual delivery of the francs and that being on the gold standard and the French government being willing to declare its intention of remaining on the gold standard they think that we are raising purely theoretical risks that are not worthy of any practical consideration. Their position is, of course, understandable, though we have not admitted it to them. In the event that political or other conditions in France should indicate any early defection from the gold standard we would simply discontinue buying francs. However, we believe that we have now worked out a technical procedure that would reduce even this nominal forty-eight hour risk to an over-night risk and only on such francs as we might buy in the afternoon.

\* Probably intended to be "anything else".



SECTION SIX.

NINE. We are to have a joint meeting with the treasury representatives today after which I hope we may be sufficiently in agreement to justify recommending a specific plan, although it would depend, of course, upon whether the governments are prepared to make satisfactory declarations and to approve the technical arrangement by which the banks of issue might accomplish the job.

TEN. Please understand at the very outset and repeatedly since my arrival here I have made it clear both to the central banks and to the representatives of the treasuries that I have no authority myself to enter into any agreement or commitment of any sort whatsoever, but that I was free to explore various possibilities, and, with Sprague, to make recommendations, which, before becoming final or binding, would have to be agreed to by our board of directors, the Federal Reserve Board, and in principle, at least, by our government.

HARRISON Message ends.

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Sept

June 16, 1933

REASONS FOR A PLAN OF TEMPORARY STABILIZATION

(By Telephone from Dr. Burgess)

1. Some stabilization of the principal currencies is a prerequisite to accomplishment in other fields at the world economic conference. Most of the tariffs, quotas, and similar trade barriers set up during the past two years have been a defensive response to the depreciation of currencies. These barriers will not be removed without some measure of currency stabilization.

2. Some stabilization is necessary for us to retain the advantages gained. Without some stabilization and with the prospect of competition in depreciation, inherent strength of the dollar is likely to show itself in higher quotations and a loss of advantages gained.

3. The depreciation of the dollar, together with other measures, has been ample for the stimulation of an upward movement in domestic business and prices. It is dangerous, however, to allow speculators to capitalize indefinitely the hope of further depreciation. The reaction, when it comes, will be only more severe. Attention now should be focused on the real improvement in business and in employment which has already been substantial.

4. There is no conflict between temporary stabilization of the exchanges and a policy which alone or in coordination with other nations contemplates an expansion of credit, a program of increased public spending, and a further recovery in business and prices. Our resources are entirely adequate for the carrying out of such a policy and temporary stabilization of the dollar cannot jeopardize our ability to do so.

25-5



5. Although temporary stabilization of currencies should be a prelude to a more permanent stabilization, the rates or ranges of rates now fixed would not preclude the possibility of subsequent changes in the event that domestic or international considerations makes such a change seem desirable.

6. The alternative to stabilization is an uncontrolled currency which exposes us to wide fluctuations damaging alike to international business and finance and which is extremely susceptible to speculative manipulation. Further depreciation of the dollar may force France and her gold standard neighbors off gold, creating still greater international confusion and increasing the difficulties of eventual stabilization. The relative strength of the dollar which would result might well endanger our domestic program.



## Office Correspondence

FEDERAL RESERVE  
BOARDDate June 17, 1933. *See Na*

To Mr. Hamlin

Subject:

From Governor Black

2-8495

There was sent to you yesterday copy of a cablegram addressed to Dr. Burgess by the Chief Cashier of the Bank of England setting forth draft of a proposed arrangement between the Bank of England, Bank of France and the Federal Reserve Bank of New York.

Dr. Burgess advises this morning of the receipt of a cablegram requesting that certain changes be made in that draft, as follows:

At the middle of the fourth line under caption ONE, the phrase "(would hereby be willing to)" is changed to read "would be willing to" eliminating the parenthesis.

In the second line under caption SIX, the word "agreement" is changed to "arrangement"; in the next to the last line the words "the three banks" are eliminated; and in the last line the word "approval" is changed to "approvals".

A revised copy of the cablegram, incorporating these changes is attached.

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PAGE 57

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## Office Correspondence

FEDERAL RESERVE  
BOARDDate June 29, 1933 *See Nu*To Mr. Hamlin

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

From Mr. Goldenweiser *GGW*

GPO 2-8495

I attach a report, prepared by Mr. Riefler in accordance with  
your request of May 8, on the subject of rates charged small borrowers.

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## Office Correspondence

FEDERAL RESERVE  
BOARD

Date June 28, 1933

To Mr. Goldenweiser

Subject: Rates charged small borrowers

From Mr. Riefler *MR*

2-8495

Some time ago Mr. Hamlin suggested that we make a special inquiry among member banks to find out to what extent rates charged small borrowers had changed since 1928. In accordance with this suggestion, each Federal reserve bank was requested to obtain a special report on these rates from those member banks which report regularly on rates charged customers, and also from such other member banks as the Federal reserve banks thought it wise to include. Each bank was requested to report the range of rates it charged on two classes of small customer loans, ranging in amount from \$500 to \$1,000, in May 1928 and in May 1933. The classes of loans selected were (1) prime customers' commercial paper such as would be eligible for rediscount at the Federal reserve banks, and (2) loans secured by stock exchange collateral.

The answers submitted to this request are summarized on the following table. This shows that among 175 member banks which reported rates to small borrowers on commercial loans, 147 banks reported no change in rates, 20 banks showed a slight decrease in rates, and 8 banks showed a slight increase in rates. A simple average of all the rates reported by the 175 banks shows a decline for the period from 6.42 per cent in May 1928 to 6.38 per cent in May 1933. The table also shows that of the 182 banks which reported rates to small borrowers on loans secured by stock exchange collateral 150 reported no change in rates, 22 banks reported a slight decrease in rates, and 10 banks reported a slight increase in rates. A simple average of all the rates reported under this classification showed a decline from 6.45 per cent in May 1928 to 6.40 per cent in May 1933. During the same period the Federal Reserve Board's weighted average



of rates charged customers, both large and small, in leading cities which is based on both commercial loans and loans on stock exchange collateral also declined from 5.16 per cent in May 1928 to 4.92 per cent in May 1933. The difference in level between these two averages reflects in considerable part the fact that lending rates are usually higher on small loans than on large loans. It is also affected, however, by differences in banks from which reports were collected and by differences in the weighting of the two averages, since the Board's weighted index is heavily affected by the large volume of larger loans reported by Eastern banks where the general level of interest rates is materially lower than in the South and West.



INTEREST RATES CHARGED BY 175 MEMBER BANKS ON SMALL PRIME  
COMMERCIAL LOANS (\$500 to \$1,000) SUCH AS WOULD BE ELIGIBLE  
FOR REDISCOUNT AT THE FEDERAL RESERVE BANKS

	Number of banks	Range per cent	
		May 1928	May 1933
Boston	4	5-6	5-6
New York City	4	4 $\frac{3}{4}$ -6	3-6
Philadelphia	12	5-6	5-6
Cleveland	3	6	6
Cincinnati	5	5-6	5-6
Pittsburgh	7	6	6
Richmond	3	6	6
Baltimore	5	6	4 $\frac{1}{2}$ -6
Charlotte	3	6	6
Atlanta	3	5 $\frac{1}{2}$ -7	5-7
Birmingham	2	6-8	6-8
Jacksonville	3	6-8	6-8
Nashville	3	6-8	6-8
New Orleans	2	6-8	6-8
Chicago	22	4 $\frac{1}{2}$ -6	3-6
Detroit	1	6	6
St. Louis	4	5-6	5-6
Little Rock	4	6-7	6-7
Louisville	4	6	6
Memphis	3	6	6
Minneapolis	3	5 $\frac{1}{2}$ -6	5 $\frac{1}{2}$ -6
Helena	2	8	8
Kansas City	4	5-8	6-8
Denver	7	6-10	6-8
Oklahoma City	5	6-10	6-10
Omaha	3	6-8	6-8
Dallas	5	6-8	6-8
El Paso	2	6-8	6-8
Houston	7	6-8	6-8
San Antonio	5	6-10	6-10
Fort Worth	4	5 $\frac{1}{2}$ -10	6-10
Waco	3	7-10	7-10
San Francisco	6	5-7	5-7
Los Angeles	6	5-8	5-8
Portland	4	6-8	6-8
Salt Lake City	4	7-8	7-8
Seattle	6	6-8	6-8
Spokane	2	6-8	6-8



INTEREST RATES CHARGED BY 182 MEMBER BANKS ON SMALL LOANS  
(\$500 to \$1,000) SECURED BY PRIME STOCK EXCHANGE COLLATERAL

	Number of banks	Range per cent	
		May 1928	May 1933
Boston	5	5-6	5-6
New York City	6	4 $\frac{1}{2}$ -6	4-6
Philadelphia	13	5-6	5-6
Cleveland	3	6	6
Cincinnati	5	5-6	5-6
Pittsburgh	7	6	6
Richmond	3	6	6
Baltimore	5	6	4 $\frac{1}{2}$ -6
Charlotte	3	6	6
Atlanta	3	5 $\frac{1}{2}$ -7	6-7
Birmingham	2	6-8	6-8
Jacksonville	3	6-8	5-8
Nashville	3	6-8	6-8
New Orleans	2	6-8	6-8
Chicago	24	4 $\frac{1}{2}$ -6	4-6
Detroit	1	6	6
St. Louis	4	5-6	5-6
Little Rock	4	6-8	6-8
Louisville	4	6	6
Memphis	3	6	6
Minneapolis	3	5 $\frac{1}{2}$ -6	5 $\frac{1}{2}$ -6
Helena	2	8	8
Kansas City	4	6-8	6-8
Denver	7	6-10	6-8
Oklahoma City	5	6-10	6-10
Omaha	3	6-8	6-8
Dallas	5	5-8	6-8
El Paso	2	6-8	6-8
Houston	7	6-8	6-8
San Antonio	5	6-10	6-10
Fort Worth	4	6-10	6-10
Waco	3	6-10	6-10
San Francisco	6	5-7	5-8
Los Angeles	6	5-8	5-8
Portland	5	6-8	6-8
Salt Lake City	4	6-8	6-8
Seattle	6	6-8	6-8
Spokane	2	6-8	6-8



See Bu  
July 3, 1933

Governor Black

Power to Restrain Speculation

Mr. Wyatt - General Counsel.

in Stocks and Bonds.

In accordance with your request, I respectfully submit the following list of powers vested in the Federal Reserve Board and the Federal reserve banks which might be used for the purpose of restraining speculation in stocks and bonds:

SPECIAL POWERS

1. Upon the affirmative vote of not less than six of its members, the Federal Reserve Board is authorized to fix the percentage of their capital and surplus which individual member banks may have invested in loans secured by stock or bond collateral; and it is the Board's duty to establish such percentages "with a view to preventing the undue use of bank loans for the speculative carrying of securities." (Section 11(m) of the Federal Reserve Act, as amended by Section 7 of the Banking Act of 1933, pages 6 and 7.)
2. The Federal Reserve Board is authorized to direct any member bank to refrain from further increasing its loans secured by stock or bond collateral for any period up to one year, under penalty of suspension of all rediscount privileges at Federal reserve banks. (Section 11(m) of the Federal Reserve Act, as amended by Section 7 of the Banking Act of 1933, page 7.)
3. The Federal Reserve Board may warn all member banks, and each Federal reserve bank may warn the member banks of its district, not to increase their outstanding loans secured by stocks, bonds, debentures, or other such obligations, or their loans to members



of any organized stock exchange, investment house, or dealer in securities, for the purpose of purchasing or carrying stocks, bonds or other investment securities. If any member bank increases the volume of its loans of this character after such a warning has been issued and while it is indebted to the Federal reserve bank on direct advances made under the eighth paragraph of Section 13, all such advances from the Federal reserve bank shall become immediately due and payable and such member bank shall be ineligible to borrow at the Federal reserve bank under the provisions of the eighth paragraph of Section 13 for such period as the Federal Reserve Board may determine. (Eighth paragraph of Section 13 of the Federal Reserve Act, as amended by Section 9 of the Banking Act of 1933, p. 21.)

4. Each Federal reserve bank is required to keep itself informed of the general character and amount of the loans and investments of its member banks, with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions and it is required to give consideration to such information in determining whether to grant or refuse advances, discounts or other credit accommodations to member banks. (Section 4 of the Federal Reserve Act, as amended by Section 3(a) of the Banking Act of 1933, page 2.)

5. Whenever, in the judgment of the Federal Reserve Board, any member bank is making undue use of bank credit for the speculative carrying of or trading in securities, real estate or commodities,



or for any other purpose inconsistent with the maintenance of sound credit conditions, the Federal Reserve Board, after notice and an opportunity for a hearing, may suspend such bank from the use of the credit facilities of the Federal Reserve System. (Section 4 of the Federal Reserve Act, as amended by Section 3(a) of the Banking Act of 1933, page 2.)

6. The Board could enforce strictly the prohibition against any member bank acting as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds and other investment securities or loans to brokers or dealers in such securities; and in this way check to some extent the "loans for others" which played such a large part in the total volume of brokers' loans during 1929. (Section 19 of the Federal Reserve Act, as amended by Section 11(a) of the Banking Act of 1933, p.22.)

#### GENERAL POWERS.

7. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal reserve banks to take such action as may be necessary, in the judgment of the Board and the Secretary of the Treasury, to prevent undue credit expansion. (Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23.)

8. Upon the affirmative vote of not less than 5 of its members and with the approval of the President, the Board may declare that an emergency exists by reason of credit expansion, and, during such emergency, may, in its discretion, increase from time to time the



Governor Black -- 4

reserve balances required to be maintained by member banks against either demand or time deposits. (Section 19 of the Federal Reserve Act, as amended by Section 46 of the Emergency Agricultural Relief Act of May 12, 1933, p. 26.)

9. The Board could tighten general credit conditions and put the member banks in debt to the Federal reserve banks by requiring the Federal reserve banks to sell part or all of their large portfolio of government obligations. (Section 12A of the Federal Reserve Act, as amended by Section 8 of the Banking Act of 1933, p. 7 and Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23, which is summarized above under paragraph 7.)

10. The Board could raise the rediscount rate at any or all Federal reserve banks. (Section 14(d) of the Federal Reserve Act, p. 35, and Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23, summarized under paragraph 7 above.)

I am giving you a summary in this form; because I understand that you desire to have it this afternoon and I imagine that you prefer to have it in short form. However, I shall supplement this memorandum later by a longer memorandum quoting and commenting upon the provisions of law referred to above.

Respectfully,

Walter Wyatt,  
General Counsel.

Q75

WY gc



## Office Correspondence

FEDERAL RESERVE  
BOARD

See No.

Date July 3, 1933.

To Governor Black

Subject: Power to Restrain Speculation

From Mr. Wyatt - General Counsel

in Stocks and Bonds.

2-8495

In accordance with your request, I respectfully submit the following list of powers vested in the Federal Reserve Board and the Federal reserve banks which might be used for the purpose of restraining speculation in stocks and bonds:

SPECIAL POWERS:

1. Upon the affirmative vote of not less than six of its members, the Federal Reserve Board is authorized to fix the percentage of their capital and surplus which individual member banks may have invested in loans secured by stock or bond collateral; and it is the Board's duty to establish such percentages "with a view to preventing the undue use of bank loans for the speculative carrying of securities." (Section 11(m) of the Federal Reserve Act, as amended by Section 7 of the Banking Act of 1933, pages 6 and 7.)

2. The Federal Reserve Board is authorized to direct any member bank to refrain from further increasing its loans secured by stock or bond collateral for any period up to one year, under penalty of suspension of all rediscount privileges at Federal reserve banks. (Section 11(m) of the Federal Reserve Act, as amended by Section 7 of the Banking Act of 1933, page 7.)

3. The Federal Reserve Board may warn all member banks, and each Federal reserve bank may warn the member banks of its district, not to increase their outstanding loans secured by stocks, bonds, debentures, or other such obligations, or their loans to members

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of any organized stock exchange, investment house, or dealer in securities, for the purpose of purchasing or carrying stocks, bonds or other investment securities. If any member bank increases the volume of its loans of this character after such a warning has been issued and while it is indebted to the Federal reserve bank on direct advances made under the eighth paragraph of Section 13, all such advances from the Federal reserve bank shall become immediately due and payable and such member bank shall be ineligible to borrow at the Federal reserve bank under the provisions of the eighth paragraph of Section 13 for such period as the Federal Reserve Board may determine. (Eighth paragraph of Section 13 of the Federal Reserve Act, as amended by Section 9 of the Banking Act of 1933, p. 21.)

4. Each Federal reserve bank is required to keep itself informed of the general character and amount of the loans and investments of its member banks, with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions and it is required to give consideration to such information in determining whether to grant or refuse advances, discounts or other credit accommodations to member banks. (Section 4 of the Federal Reserve Act, as amended by Section 3(a) of the Banking Act of 1933, page 2.)

5. Whenever, in the judgment of the Federal Reserve Board, any member bank is making undue use of bank credit for the speculative carrying of or trading in securities, real estate or commodities



or for any other purpose inconsistent with the maintenance of sound credit conditions, the Federal Reserve Board, after notice and an opportunity for a hearing, may suspend such bank from the use of the credit facilities of the Federal Reserve System. (Section 4 of the Federal Reserve Act, as amended by Section 3(a) of the Banking Act of 1933, page 2.)

6. The Board could enforce strictly the prohibition against any member bank acting as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds and other investment securities or loans to brokers or dealers in such securities; and in this way check to some extent the "loans for others" which played such a large part in the total volume of brokers' loans during 1929. (Section 19 of the Federal Reserve Act, as amended by Section 11(a) of the Banking Act of 1933, p. 22.)

#### GENERAL POWERS.

7. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal reserve banks to take such action as may be necessary, in the judgment of the Board and the Secretary of the Treasury, to prevent undue credit expansion. (Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23.)

8. Upon the affirmative vote of not less than 5 of its members and with the approval of the President, The Board may declare that an emergency exists by reason of credit expansion, and, during such emergency, may, in its discretion, increase from time to time the



Governor Black -- 4

reserve balances required to be maintained by member banks against either demand or time deposits. (Section 19 of the Federal Reserve Act, as amended by Section 46 of the Emergency Agricultural Relief Act of May 12, 1933, p. 26.)

9. The Board could tighten general credit conditions and put the member banks in debt to the Federal reserve banks by requiring the Federal reserve banks to sell part or all of their large portfolio of government obligations. (Section 12A of the Federal Reserve Act, as amended by Section 8 of the Banking Act of 1933, p. 7 and Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23, which is summarized above under paragraph 7.)

10. The Board could raise the rediscount rate at any or all Federal reserve banks. (Section 14(d) of the Federal Reserve Act, p. 35, and Section 43 of the Emergency Agricultural Relief Act of May 12, 1933, p. 23, summarized under paragraph 7 above.)

I am giving you a summary in this form; because I understand that you desire to have it this afternoon and I imagine that you prefer to have it in short form. However, I shall supplement this memorandum later by a longer memorandum quoting and commenting upon the provisions of law referred to above.

Respectfully,

(signed)

Walter Wyatt  
General Counsel.



## Office Correspondence

Date July 7, 1933

To Mr. Hamlin

Subject: Reserve Bank Credit, March 1

From Mr. Smead

to June 28, 1933

16-852

In accordance with your telephone request there is attached a table showing changes between March 1 and June 28 in reserve bank credit and related items, in excess reserves of member banks, and in loans and investments of weekly reporting member banks.

It will be noted that holdings of bills discounted declined \$521,000,000 and of bills bought in open market \$376,000,000, while holdings of United States Government securities increased \$139,000,000, and that total reserve bank credit declined \$754,000,000. The decline in reserve bank credit is more than accounted for by a decrease of \$1,045,000,000 in the amount of money in circulation with the result that member bank reserve balances were increased \$248,000,000. Estimated excess reserves of all licensed member banks on June 28 were \$486,000,000, compared with \$247,000,000 on March 1, an increase of \$239,000,000, which is \$100,000,000 in excess of the amount of United States Government securities purchased by the reserve banks during the period.

As indicated by the table, total loans and investments of weekly reporting member banks in 90 leading cities increased between March 1 and June 28 by \$765,000,000, of which \$623,000,000 represents additional purchases of United States Government securities. In the case of reporting banks in New York City total loans on securities increased \$151,000,000.



Mr. Hamlin - #2

other loans \$170,000,000, and United States Government securities \$100,000,000. In the 89 other leading cities loans on securities declined \$130,000,000 and other loans \$20,000,000, while United States Government security holdings increased \$523,000,000. It may also be stated, in this connection, that loans to brokers and dealers in securities made by New York City banks for their own account increased from \$398,000,000 on March 1 to \$699,000,000 on June 28, or by \$300,000,000, while loans on securities to non-broker customers declined \$150,000,000.



CHANGES IN AMOUNT OF RESERVE BANK CREDIT OUTSTANDING AND IN RELATED  
ITEMS, IN EXCESS RESERVES OF MEMBER BANKS, AND IN LOANS AND  
INVESTMENTS OF WEEKLY REPORTING MEMBER BANKS, MARCH 1  
TO JUNE 28, 1933.

	<u>March 1</u>	<u>June 28</u>	<u>Increase or decrease</u>
	(In millions of dollars)		
Bills discounted	712	191	- 521
Bills bought	384	8	- 376
United States Government securities	1,836	1,975	+ 139
Other reserve bank credit	4	7	+ 3
Total reserve bank credit	2,936	2,182	- 754
Monetary gold stock	4,344	4,318	- 26
Treasury currency, adjusted	1,915	1,979	+ 64
Money in circulation	6,720	5,675	-1,045
Member bank reserve balances	2,038	2,286	+ 248
Unexpended capital funds, nonmember deposits, etc.	436	517	+ 81
Excess reserves of member banks - total	247	486	+ 239
New York City	- 3	61	+ 64
Outside New York City	250	425	+ 175
Loans and investments of weekly report- ing member banks - total	15,900	16,665	+ 765
New York City	6,512	6,913	+ 401
89 other cities	9,388	9,752	+ 364
Loans on securities - total	3,727	3,748	+ 21
New York City	1,640	1,791	+ 151
89 other cities	2,087	1,957	- 130
Other loans	4,554	4,704	+ 150
New York City	1,439	1,609	+ 170
89 other cities	3,115	3,095	- 20
United States securities	4,631	5,254	+ 623
New York City	2,338	2,438	+ 100
89 other cities	2,293	2,816	+ 523
Other securities	2,988	2,959	- 29
New York City	1,095	1,075	- 20
89 other cities	1,893	1,884	- 9

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Sup

(Letterhead of)

FEDERAL RESERVE BANK OF NEW YORK

July 8, 1933.

Dear Governor Black:

I beg to submit the following report of the discussions in London in which I participated from June 11 to June 17 separately with the representatives of the Bank of England and the Bank of France, and jointly with representatives of our treasury, the British and French treasuries.

As you know, the French government toward the end of May sent a message to our government indicating that in their judgment some steps toward stabilization of the exchanges should be undertaken promptly and if possible even before the convening of the World Economic Conference. They accordingly invited our government to send representatives of our treasury and the Federal Reserve Bank of New York to discuss this question with representatives of the British and French treasuries and banks of issue. Some sort of a joint meeting was essential they thought in order that representatives of the treasuries might explore and exchange views on the broader governmental aspects of the question, that is, the more general economic policies involved in stabilization, and in order that representatives of the banks of issue might be available to assist by preparing any technical arrangement which might be necessary to carry out any plan of action agreed upon between the governments. As you have been informed, our government decided to accept the invitation of the French government



Governor Black - (2)

and advised both it and the British government that they had requested Dr. Sprague to go to London to represent the United States treasury, and me to represent the Federal Reserve Bank of New York.

Accordingly, on June 2, I sailed from New York together with Dr. Sprague and Mr. Crane, deputy governor of this bank. All of the discussions in which I participated took place in London, at the Bank of England or the British treasury. The representatives from the other two countries were as follows: Sir Frederick Phillips and Mr. Waley for the British treasury; Governor Norman, Mr. Hambro and Professor Clay for the Bank of England; Messrs. Bizot and Rueff for the French treasury, and Governor Moret, Mr. Farnier and Mr. Lacour-Gayet for the Bank of France.

Representatives of the treasuries first met on Saturday, June 10, the day after we landed, and had several meetings in the next few days, in the course of which I understand questions of policy within the province of the governments were discussed - questions such as the broader monetary objectives of the three countries; possible limits in which the dollar and the pound might be kept, and possible amounts to be expended for that purpose. My report, however, concerns itself with the discussions of the three banks on technical means rather than with discussions of the representatives of the treasuries on the broader policies and decisions of the governments.

On Sunday, June 11, the representatives of the central banks were requested to meet with the representatives of the treasuries and were each asked four specific questions:

1. If no positive action is taken by the governments or the central banks was it the judgment of the banks of issue



Governor Black - (3)

that the exchanges would remain steady during the period of the World Economic Conference.

To this question the representatives of all three banks answered no.

2. If, on the other hand, each of the governments should declare to the other two governments that it would take no act calculated to disturb the exchanges, in the absence of unexpected or unforeseen events at home, would the exchanges remain steady during the period of the conference.

To this question the representatives of the three banks answered no on the ground that such a declaration would not remove all of the factors which would probably result in fluctuations.

3. Would it be practicable for the banks of issue to prevent dealings in forward exchanges for speculative purposes, and if so would that remove the risk of undue fluctuations in the exchanges during the period of the conference.

There were differences of opinion as to whether or not it would be practicable for the banks of issue to restrict such dealings in forward exchange, but each of the three banks agreed that even if practicable such restrictions would not remove the risk of fluctuations.

4. In the event that it should be decided by the governments to take steps to limit undue fluctuations in the exchanges during the period of the conference, did the three central banks have any technical methods to suggest by which this might be accomplished.

It was the opinion of the representatives of each of the three central banks that if this were considered to be desirable there were technical ways by which these fluctuations could be avoided or limited during the period of the conference.



Governor Black - (4)

Representatives of the treasuries then requested the banks of issue to consider and to report back how this might best be done in the event that the governments should decide to adopt measures to limit exchange fluctuations for a period.

The representatives of the three banks then withdrew and for the next few days confined themselves to discussions of possible technical means by which wide fluctuations in the exchanges might be restricted during the period of the conference. Our discussions soon limited themselves to a consideration of a plan by which some leveling out of the fluctuations in the exchange rates might be accomplished by a tripartite agreement to keep them within specified spreads, to be agreed upon by the three governments, pending developments of the conference.

I stated at the outset that I could not speak for our government on any question of monetary policy or on any question of rates or spreads in rates, nor could I in any way commit the Federal Reserve Bank of New York to any technical arrangement, even if agreed to by the treasury representatives, by which exchange fluctuations could be leveled out; that the most I could do would be to recommend the adoption of such an arrangement, if agreeable to the government, subject to the approval of the directors of the Federal Reserve Bank of New York, and the Federal Reserve Board.

In considering the technical machinery by which these objectives, if agreed upon by the governments, might be carried out I suggested the possibility of an arrangement by which each of the three banks would agree to expend a certain amount in an effort to keep each of three currencies within agreed limits of fluctuation



Governor Black - (5)

more or less for the period of the conference. This arrangement contemplated that each of the three banks should agree to buy or sell exchange to maintain the three currencies within the prescribed limits and that each of the three banks would take the risk of its own currency.

After considerable discussion of the arguments for and against the various suggestions which were offered, including a proposal to have the Bank of England and the Federal Reserve Bank of New York each agree to limit fluctuations in their respective currencies by fixing and publishing buying and selling rates for limited but not published amounts of gold, we concentrated our efforts on working out a technical arrangement along the lines of our original proposal. This arrangement finally contemplated that we would endeavor to keep the dollar within spreads to be agreed upon in terms of the French gold franc and that we would intervene in the exchange market, fixing buying and selling prices for francs at whatever rates might be agreed upon by our government. To the extent that we bought francs we would convert them into gold to be earmarked for our account with the Bank of France free for export. To the extent that we had to sell francs we would acquire them against gold earmarked by us in New York for account of the Bank of France free for export. In other words, all purchases and sales of francs which we would make under the arrangement would be promptly settled in gold. It was also contemplated that the Bank of England might operate in a similar manner against the French franc but that as far as possible they would keep the pound within agreed points through the purchase and sale of gold in the open market in London.



Governor Black - (6)

If adopted, this arrangement would have been effective, subject to the proposed declaration of the governments, pending the developments of the conference, unless any one of the three banks had previously expended the determined amount of gold in carrying out the terms of the arrangement. In that event it would have terminated subject to renewal by mutual consent at the same or new spreads in rates and for the same or new amounts of gold.

On June 16 the representatives of the Bank of England, the Bank of France and ourselves agreed upon the text of a technical arrangement which we believed would tend to level out undue fluctuation in the exchanges for a limited period, and on that day we reported our tentative agreement to this arrangement to the representatives of the treasuries advising them that we would be prepared to recommend its adoption by our respective authorities provided the three governments agreed to have us do so, and provided also that the governments agreed to the form of governmental declaration proposed by the representatives of the treasuries and submitted to us on that day. While the text of the technical arrangement has previously been presented to the Federal Reserve Board through the Federal Reserve Bank of New York from London, I am as a matter of convenience enclosing a copy together with a copy of the proposed governmental declaration referred to in the text of the arrangement.

Having completed my discussions with the central banks on June 16 and having submitted our proposed text of technical arrangement to the representatives of the treasuries for their consideration and the consideration of the governments, I arranged to sail for New York on Sunday, June 18, having first procured the approval of



Governor Black - (U)

the President at whose invitation I had gone abroad. As you are of course aware, the government has announced its unwillingness to enter into any exchange agreement with the French and British governments at the present time. That being so, there has been no occasion to recommend the adoption of the arrangement tentatively agreed to by the representatives of the banks of issue in London.

This report will confirm the detailed oral report which I made to the Federal Reserve Board on Saturday, June 24, the day after my arrival in New York.

Faithfully yours,

(signed) George L. Harrison

Governor

Hon. Eugene R. Black,  
Governor, Federal Reserve Board,  
Washington, D. C.

Encs. (2)



1. Subject to the adoption by the three Governments of the declaration, the draft of which has been communicated to them by the representatives of the Treasuries and which is annexed to the present, the representatives of the three Banks of Issue would be willing to recommend the following procedure pending the developments of the Conference.
2. (a) The Bank of England will use its best endeavours to maintain the sterling price of gold between        and        per fine ounce and, if necessary to this end, agrees to lose gold up to a net amount of        fine ounces.  
(b) The Federal Reserve Bank will use its best endeavours to maintain the dollar between        and        in terms of the French gold franc and, if necessary to this end, agrees to lose gold up to a net amount of        fine ounces.  
(c) The Bank of France will be ready to deliver on demand to the two other Banks any amount of gold corresponding to deliveries of their purchases of francs.
3. As soon as any one of the three Banks of Issue shall have lost under this arrangement a net amount of        fine ounces of gold, this arrangement shall terminate but may be renewed with the same or new amounts and the same or new rates by mutual agreement between the three Banks.



4. Only gold delivered to or earmarked free for export for Banks of Issue or the Bank for International Settlements to be counted for the purposes of Article 2(a) and (b) and Article 3 of this arrangement.
5. While each of the three Banks of Issue may within their powers dispose of their foreign exchange holdings, nevertheless so far as this arrangement is concerned the transfer into gold and/or devisen of the Bank of England's existing dollar balances shall be subject to mutual agreement between the Bank of England and the Federal Reserve Bank of New York.
6. In order to ensure its effective operation all the terms of this arrangement must be absolutely secret. Any public announcement should be limited to a declaration by the Governments that pending developments of the Conference a temporary arrangement has been agreed between the three Banks to ensure reasonable stability of currencies and that the Governments concerned had given the necessary approvals to proceed with the arrangement.

17th June 1933.



COPY

ANNEX

DECLARATION BY THE THREE GOVERNMENTS.

1. The informal conversations between representatives of the Treasuries and the Banks of Issue of France, Great Britain and the United States of America have been concluded.
2. These conversations have achieved the following results:-
3. The French Government has confirmed its determination to maintain the free working of the Gold Standard in France within the framework of its national monetary law.
4. The Governments and Banks of Issue of the United Kingdom and of the United States of America have stated that the stabilisation of their currencies on a gold basis under proper conditions forms the ultimate objective of their policy.
5. Both Governments and Banks of Issue agreed on the necessity of limiting so far as it may be feasible fluctuations in those of their currencies which are off gold from the beginning of the Conference and during the period when the Conference is endeavouring to lay the groundwork for lasting stability - an endeavour which has the unqualified support of the three Governments.
6. With the object as defined above in view, and without attempting to fix at this time the rates of ultimate stabilisation of the currencies off gold, the Governments of the three countries have agreed on the necessity of an appropriate financial policy and that they will not in the absence of exceptional and unforeseen circumstances take any measures which will be incompatible with the principle of maintaining or restoring monetary stability.



7. In connection with the above declaration a temporary arrangement for cooperation has been agreed between the three Banks of Issue.
8. The Governments and Banks of Issue have decided to remain in close contact for the execution of the programme laid down above.

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CONFIDENTIAL

July 11, 1933.

Hon. Dean Acheson,  
Under Secretary of the Treasury,  
Washington, D. C.

Dear Mr. Secretary:

I am returning telegram from Secretary Hull, together with Section IV of the letter from the Governor of the Bank for International Settlements dated May 7, 1933.

The Board has considered this matter today and feels that this Section IV is an academic statement of principles pertinent to the Gold Standard on a bullion basis as existent in pre-war days plus the suggestion of an enlargement of Central Bank cooperation in effectuating the application of this Standard.

The Board is of the opinion that this academic statement of such principles is not applicable under present conditions in the international monetary field and is especially not applicable to monetary conditions in the United States, and feels that such statement of principles subscribed to by our Government would be construed as some pronouncement of intention relative to the Gold Standard, would be unwise for this reason at this time, and might result in a revival of the distressing situation recently prevalent at the conference arising out of the question of stabilization.

Very truly yours,

(s) E. R. Black,  
Governor.

VOLUME 245  
PAGE 89



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COPY

GRAY

LONDON

Dated June 30, 1933

Recd 6:30 p.m.

Secretary of State

Washington.

83, June 30, 10 p.m.

The following inquiry should be transmitted to the Treasury, Federal Reserve Board and the Federal Reserve Bank of New York.

Is there any objection to adoption by the Conference of Section 4 of B.I.S. Governor's letter of May 7th, copy of which is in the hands of the Federal Reserve Bank of New York, as basis of recommendation to central banks for cooperation. At my suggestion the first sentence will be changed to read: "The proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain sound credit conditions and so far as within its power a fundamental equilibrium of the balance of payments of its country." Avoid making minor changes, if you agree in substance, as everyone else has agreed while I have agreed under reservation pending your decision. Please wire promptly as Committee want to report out early next week.

HULL

CSB



SECTION IV. of B.I.S. GOVERNOR'S LETTER ON GENERAL PRINCIPLES OF  
THE WORKING OF THE GOLD STANDARD - May 7, 1933.

In so far as monetary policy is entrusted to Central Banks, the following statements on the general principles of the working of the gold standard seem appropriate:

a. Primary object of gold being its employment in settling international balances, gold reserves should be concentrated in Central Banks and gold coin should not be put in circulation (gold bullion standard).

b. The proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining Central Bank policy.

c. Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

d. While gold should be allowed freely to flow out of and into the countries concerned, central banks should always be prepared to buy gold at a publicly announced fixed price, expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.

e. Central banks should obtain from their market the fullest possible information concerning the demands that might be made upon their reserves.

f. Since as already stated under b. the proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country, the discretion of each Central



bank in regulating the working of the gold standard in its own country should remain unimpaired. Central Banks should, however, recognize that in addition to their national task they have also to fulfill a task of international character. Their aim should be to coordinate the policy pursued in the various centers in order to contribute towards the satisfactory working of the international gold standard system.

Moreover, they should endeavor to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead Central banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

In pursuing such a policy the Central banks will have done what is in their power to reduce fluctuations in business activity and thereby also undue fluctuations in the purchasing power of gold.

E.- With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and at an agreed policy, Central banks should consult together continuously, each Central bank, in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for Central Bank action designed to harmonize conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realization of the principles set forth in the present note. It should continuously examine the application of the

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See

On Tuesday afternoon, July 11, 1933, Mr. Acheson brought me message from the President that he desired Federal Reserve Bank of New York to earmark twenty million of gold for the Bank of England, such gold not to be exported for two weeks unless necessary, and such gold to be used to establish a credit with Bank of England, which credit was to be used to prevent the pound from going above 4.86, this procedure to be followed for next two weeks and then the situation might be reviewed. Upon receiving this message I telephoned Governor Harrison of the Federal Reserve Bank of New York and asked him to be in Washington on Wednesday morning, July 12th. Governor Harrison came to Washington as requested and on the morning of July 12th I stated to him exact situation covered by the President's message. Governor Harrison was of opinion that situation could be handled as requested and without loss to Federal Reserve Bank of New York. He was of opinion that result of action contemplated depended largely upon nature of its reception by Bank of England. He felt that if it was fully explained that it was a temporary measure intended only to prevent violent fluctuation of the dollar which might push the pound above 4.86 it would be properly received by Bank of England with beneficial results, but if it was received and considered by Bank of England as stabilization of the pound at its present high rate which resultantly stabilized the dollar at its present low rate it would not be accepted properly and might result in a demoralization of both currencies.

At twelve o'clock on Wednesday, July 12th, I conferred with Messrs. James, Miller, Hamlin and Thomas as members of our Board and



fully acquainted them with the facts of the situation up to that hour. These gentlemen expressed their views on the subject, and were of opinion that if request was made by the President for co-operation of the System in the plan outlined it would be proper to give cooperation under the Board's powers, Mr. James stating that he desired fuller information.

At 4:30 on July 12th I conferred with the President on this subject. I stated to him that I had received through Mr. Acheson the message in question. He stated the message was correct except he wanted my views on the proposed plan. I stated to him that I concurred in the views of Governor Harrison as to the probable effects of this action, such effects being dependent upon the nature of its reception by the Bank of England, and its success being dependent upon its being received and understood by the Bank of England as a temporary measure for the duration of two weeks only intended to prevent such violent fluctuation in the dollar as would push the pound beyond the 4.86 point, but I hoped that all this might be made sufficiently clear to the Bank of England as to insure its proper reception, and that if so its purpose should be accomplished. I further stated that the action contemplated should result in temporarily quieting the unrest relative to rapid decline of the dollar and if this resulted it would in my opinion be beneficial. In this the President concurred.



I stated to the President that his message to me had been laid before members of our Board for consideration and that Governor Harrison would have to submit the matter to his Board for its consideration, as the Federal Reserve Bank of New York could not act upon his suggestion without the approval of its Board, and that such approval must be transmitted to the Federal Reserve Board for its action. After a full discussion the following plan was formed:

(1) The earmarking of \$20,000,000 of gold by the Federal Reserve Bank of New York for account of the Bank of England.

(2) The granting of a license by the President for the exportation of this gold to the Bank of England during the next two weeks, such actual exportation to be done only as and if necessary.

(3) This \$20,000,000 to be employed as necessary to establish a credit for the Federal Reserve Bank of New York with the Bank of England.

(4) This credit to be used by the Federal Reserve Bank of New York during the next two weeks to avoid such fluctuation in the dollar as to send the pound above 4.86.

(5) That Federal Reserve Bank of New York explain action fully to the Bank of England so that it will understand that this action is not a stabilization of the dollar, but is action intended during the next two weeks to prevent fluctuation in the dollar to the extent that the pound would pass the 4.86 point.

(6) That this action was to embrace only the pound and that in the action the franc was not to be employed.

(7) That the earmarked or exported gold would be reported



by the Federal Reserve Bank of New York in the usual manner.

(8) That this action would be handled through the President, the Federal Reserve Board and the Federal Reserve Bank of New York, the two agencies, the Federal Reserve Board and the Federal Reserve Bank of New York, to take the usual and necessary steps to perfect the plan.

After meeting with the President the proposed plan was stated by me to Governor Harrison. I later informally stated this full situation to Mr. Szymczak and Comptroller of the Currency O'Connor as members of the Board.

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*M. Hamilton*  
CONFIDENTIAL

*See*  
July 18, 1933  
R. & S.  
Cr. 4

BUSINESS AND CREDIT CONDITIONS

Summary

A rapid rise in business activity and a sharp advance in commodity and security prices have been the outstanding developments of recent weeks. Industrial production has increased from 60 per cent of the 1923-1925 average in March to 88 per cent in June, and the advance has not been confined to consumption goods, as was the case last autumn, but has included the durable goods industries, which constitute a large part of our production and the part that shows greater changes from prosperity to depression. Of the increase in steel, the major heavy industry, however, the larger part has reflected a growth in orders from miscellaneous sources and from the automobile industry, rather than in orders from the other big consumers, such as railroads and the construction industry. Building activity is still on a relatively low level, although contract awards have shown considerable increase in May and June. Movement of freight has also increased materially.

Employment has also expanded, but at a much slower rate, as is usual in the early stages of recovery, since giving more work to those on the payroll precedes the hiring of new workers. About 2,000,000 persons have been reemployed--but the number still idle is not less than 11,500,000.

Activity in some industries, such as textiles, shoes, and cigarettes, has been at such a rapid rate as to indicate accumulation of stocks in anticipation of demand. This represents in part, in addition to recovery, a flight from money, in view of the uncertainty of its future value, and also anticipation of the effects of such developments as the regulation of hours and wages under the new codes and the imposition of processing taxes under the Agricultural Adjustment Act.



Wholesale prices as a whole have advanced by about 14 per cent. Of the major groups farm products and foods, which had declined to the lowest levels, show greater advances than other commodities. Certain commodities that are traded in on organized exchanges and have world-wide markets have advanced by as much as 100 per cent, representing somewhat more than the rise in world prices and the depreciation of the dollar on the exchanges.

Member bank credit has expanded somewhat, chiefly through the purchase of United States securities by the banks and through the growth of brokers' loans, and activity of bank deposits has shown a substantial increase.

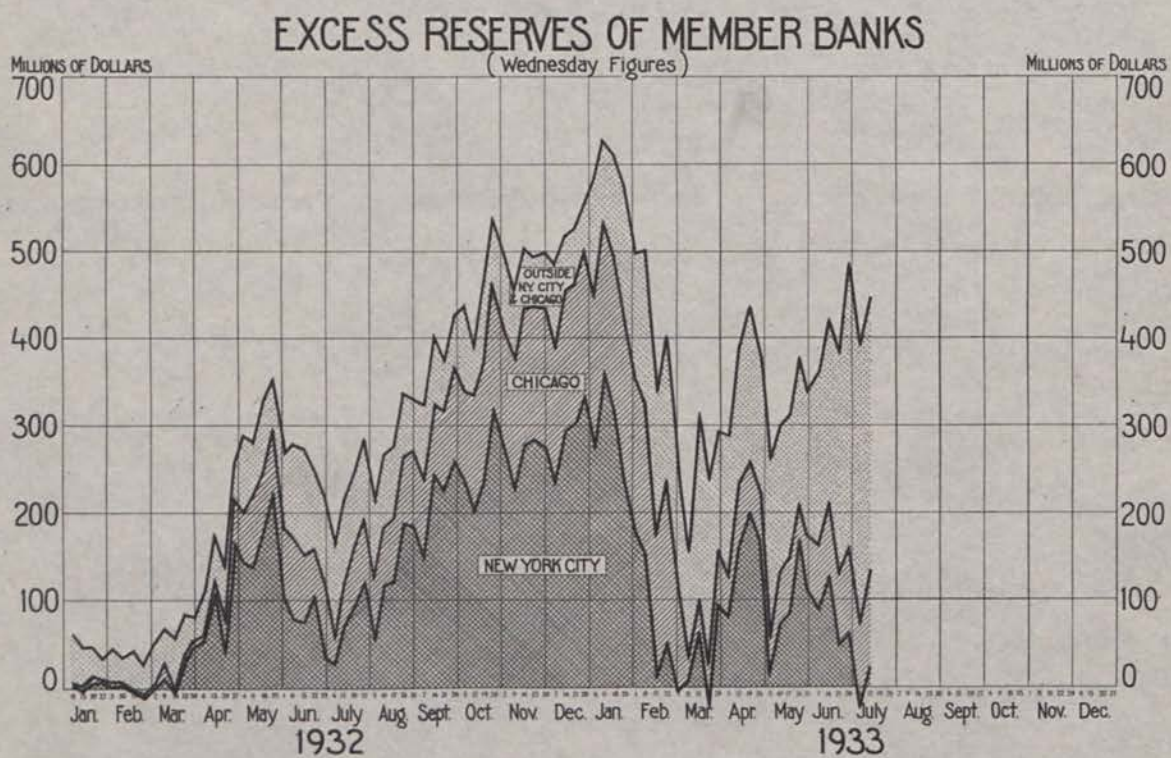
Member bank reserves have been increased through the return flow of currency, and excess reserves are once more between \$400,000,000 and \$500,000,000. Purchases of United States Government securities by the reserve banks have been reflected in a further decline of member bank indebtedness and in a reduction of the reserve banks' holdings of acceptances to a negligible amount. Total volume of reserve bank credit has remained practically unchanged at \$2,200,000,000 since the last week in May.

Money rates, which had increased sharply during the banking crisis, have declined since that time and are now near the extreme low levels of last year.

#### Excess reserves

Distribution of excess reserves of member banks between banks in New York, in Chicago, and elsewhere, is shown on the chart. The chart brings out the fact that these excess reserves are not, as previously, concentrated largely in the two central reserve cities. This redistribution is due chiefly to the fact that since no interest can be paid on bank balances payable on demand the interior banks have withdrawn a considerable part of their balances from New York and Chicago, and have either added them to their own reserve balances at the reserve banks or invested them for themselves in United States Government securities or open-market paper.







Currency

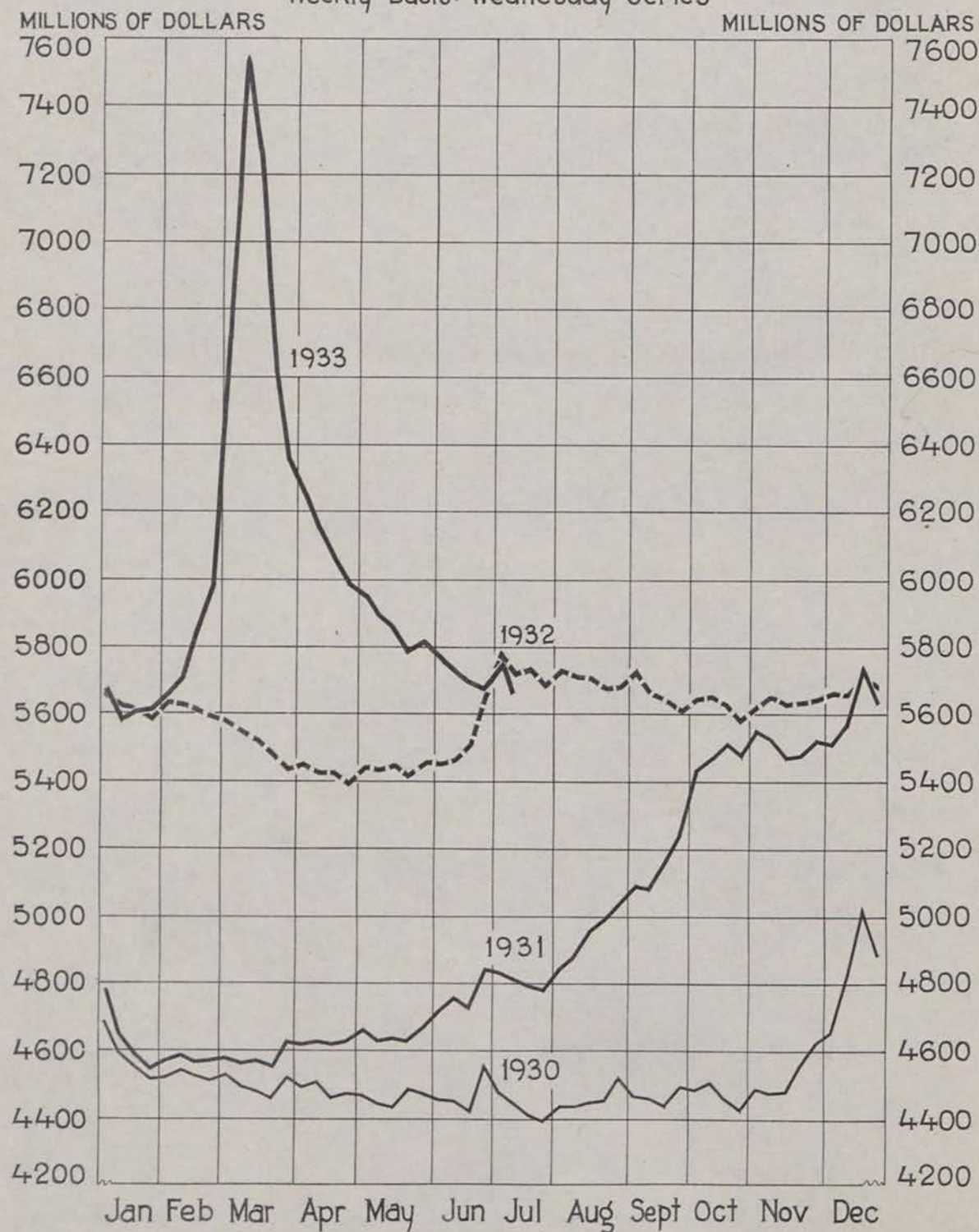
On July 12, 1933, the volume of money in circulation was at a level of \$5,667,000,000, indicating a decline of \$1,914,000,000 from the all time peak of \$7,581,000,000 reached on March 13, 1933, but was still \$1,175,000,000 above the low level of the present depression, \$4,490,000,000, reached in the autumn of 1930. Money in circulation declined rapidly after the reopening of the banks on March 13-15, and still continues to decline from week to week, notwithstanding the increase in the demand for currency arising from enlargement of payrolls and increase in the volume of retail trade. This indicates a continued return of money from hoards as banking facilities are reestablished.

The chart shows the volume of money in circulation for several past years:



# MONEY IN CIRCULATION

Weekly Basis: Wednesday Series





Gold in the hands of the public

Gold coin outside of the reserve banks and the Treasury on July 12 was \$320,000,000, less than at any other time in 50 years, and the amount of gold certificates in circulation was \$261,000,000, less than at any other time since 1922.

Of these amounts probably not less than \$250,000,000 of the gold coin and \$50,000,000 of the gold certificates have been lost or destroyed or exported without a record. Gold and gold certificates in the hands of the public, therefore, aggregate probably not more than \$300,000,000, the smallest amount in many years.

During the current depression approximately \$470,000,000 of gold went into hoards, \$275,000,000 in the form of gold coin, \$170,000,000 in the form of gold certificates and about \$25,000,000 in the form of bullion. All of the gold certificates, three-fourths of the gold bullion, and \$150,000,000 of the gold coin were withdrawn by the public during the first quarter of 1933. Since March 4, about \$300,000,000 of gold coin, \$500,000,000 of gold certificates and practically all of the previously withdrawn gold bullion have been returned to the Federal reserve banks and the Treasury.

Outside of the United States there has been evidence of gold hoarding. Monetary gold in Europe outside of reported central bank holdings, after increasing by \$170,000,000 in the year 1932, increased by \$240,000,000 in the first quarter of the current year, and by \$50,000,000 in April, \$130,000,000 in May, and \$140,000,000 in June.



Output of manufactures

The course of manufacturing output from January 1919 to May 1933 is shown in the accompanying chart, with separate lines for the total, for durable manufactures--including iron and steel, nonferrous metals, coke, lumber, automobiles, locomotives, and ships--and for nondurable manufactures--mainly textiles, leather, food, tobacco, rubber, and paper products. The underlying data are adjusted for the usual seasonal variations. The chart shows that the increase in total volume of manufacturing output from March to June was about one-half in durable goods and one-half in nondurable goods; this is in contrast to developments in the autumn of 1932 when the output of textiles and other nondurable products increased considerably, while output of durable products showed little change. The chart also brings out the fact that output of nondurable manufactures in June reached a level considerably above the 1923-1925 average, while output of durable manufactures, which had previously declined to extremely low levels, was in June about 60 per cent of the 1923-1925 average.

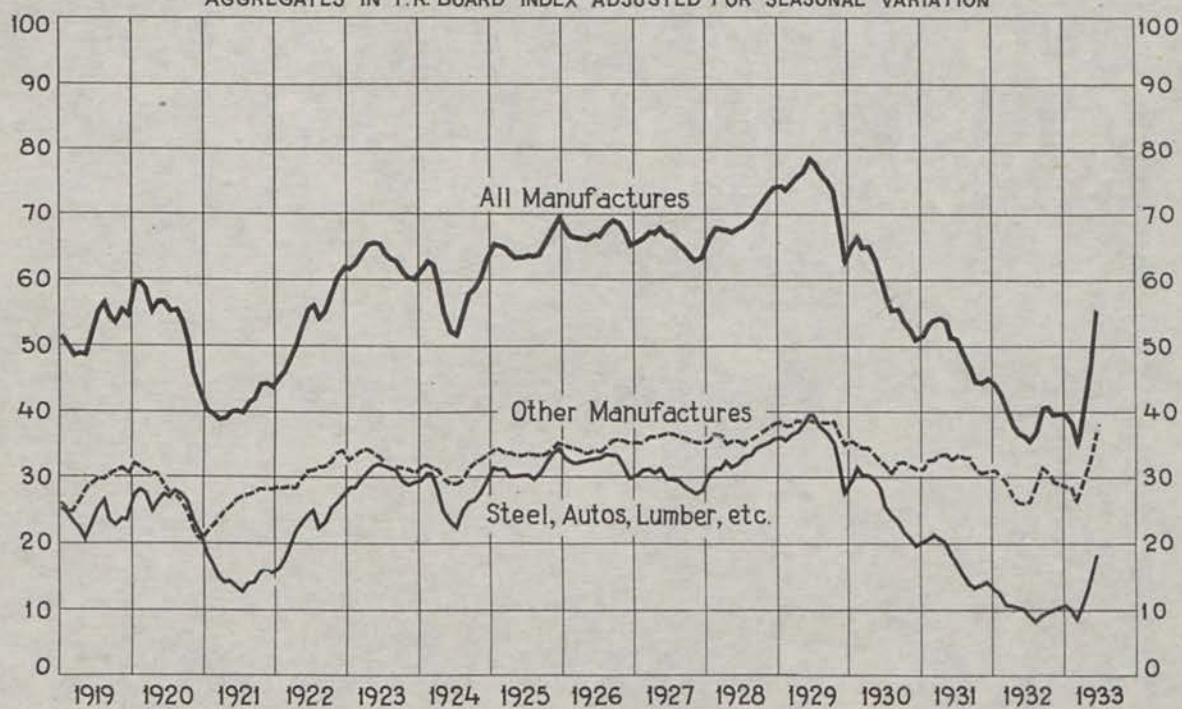
Analysis of the recent increase in output of nondurable manufactures shows that the advance in this group was general. At cotton mills activity advanced sharply to a record level in June and output at woolen mills and shoe factories was at an unusually high rate. The quantity of cigarettes manufactured in May was much larger than that reported for any previous month and output continued in large volume in June.

Among the durable goods industries the most rapid advance was in the steel industry, where activity increased from 16 per cent of capacity in March to 46 per cent in June, and about 55 per cent in July. This increase was



## VOLUME OF MANUFACTURING PRODUCTION

AGGREGATES IN F.R. BOARD INDEX ADJUSTED FOR SEASONAL VARIATION





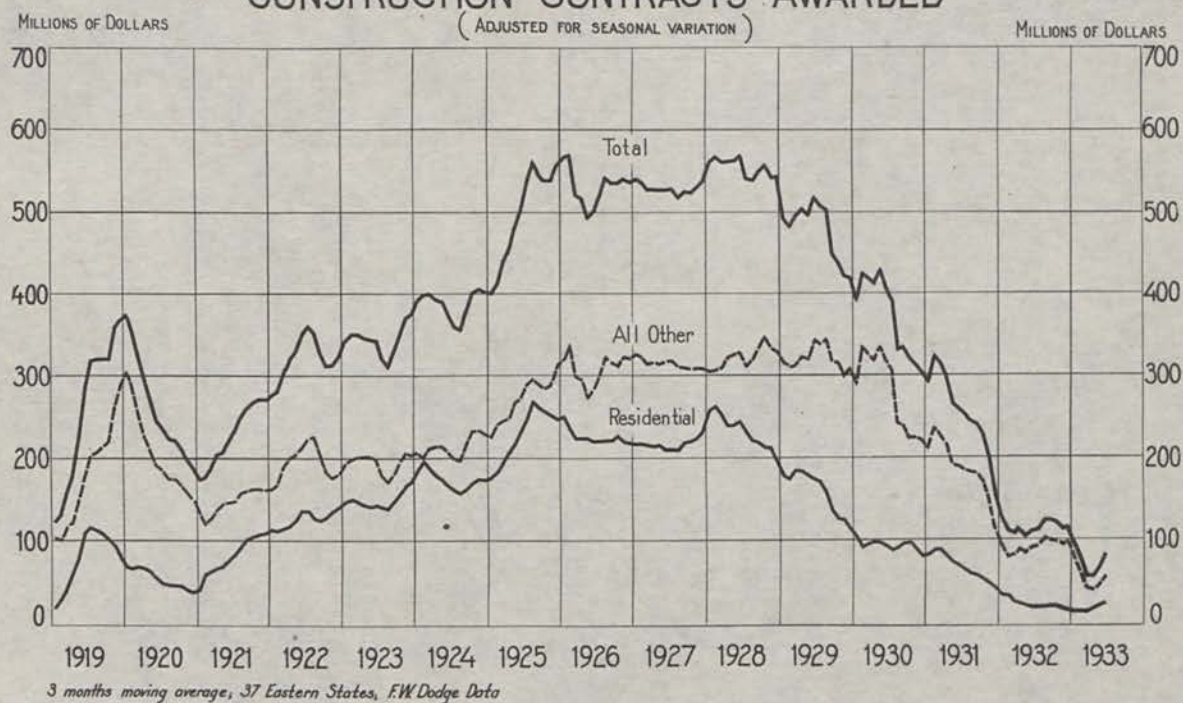
largely in response to demands from miscellaneous sources and, to a lesser extent, to increased orders from the automobile industry; demand for steel from the construction and railroad industries continued at low levels. Lumber production in June, although considerably larger than in other recent months, was only 40 per cent of the 1923-1925 average. Limited demand for structural steel, lumber, and other building materials reflected current conditions in the construction industry. Increased demand for steel from the automobile industry reflected growth in activity in that industry during April, May, and June; production of cars in these 3 months totaled about 650,000, as compared with about 500,000 in the corresponding period of last year and about 1,800,000 in the corresponding months of 1929. In July there has been little change in volume of output, although a decline is usual at this season.

#### The construction industry

Changes in the dollar volume of work being undertaken in the construction industry are indicated on the accompanying chart of contracts awarded for residential and other types of construction. The figures plotted are three-month moving averages of the F. W. Dodge data for 37 States, adjusted for the usual seasonal variations. The last point in each instance is based on reports for May and June and on an estimate for July.



## CONSTRUCTION CONTRACTS AWARDED





The chart shows that contracts both for residential and for other types of construction have recently increased by a considerable amount. Monthly figures, which often fluctuate widely, show larger increases. Total awards increased from \$57,000,000 in April, usually the peak month of the year, to \$77,000,000 in May, and to \$103,000,000 in June. As the construction work involved in any contract is spread over several months, recent increases in contracts have not yet been fully reflected in the volume of construction work that is actually going on.

The recent level of contracts shown on the chart, while considerably higher than in other recent months, is, nevertheless, only about one-fifth of the 1923-1925 average. There has been a substantial decline in costs in the interval, so that a given value of contracts represents more building now than it did then, and work done by public utilities and governmental agencies without contracts has not declined so much as contract work, but after making rough allowance for these factors it is clear that the physical volume of work being undertaken in this industry is currently much smaller, relative to the 1923-1925 average, than the current volume of industrial activity.

During the coming months the enlarged expenditures by the Federal Government will be a factor of some importance. Such expenditures in the past twelve months have probably been around \$500,000,000, and the maximum outlay provided for in the public works program is \$3,300,000,000, of which \$100,000,000 is set aside for the Agricultural Adjustment Administration and the Farm Credit Administration. To date the expenditures definitely approved and largely to be made within a year are about \$750,000,000--comprising \$400,000,000



for roads, \$238,000,000 for navy building (not included in the usual totals of "construction"), \$65,000,000 for public works (chiefly Boulder Dam), and \$50,000,000 for national forest highways. Further proposals are now under consideration.

Total construction outlays in 1932, public and private, approximated \$4,000,000,000.

#### Employment and income

Employment and income of wage-earners, a leading factor in the purchase of consumers' goods, has not kept pace with the increase in production in the last three months. The depression has promoted a great deal of labor saving, and in the early stages of recovery a larger volume of production is possible without the employment of more workers. This is especially true at a time like this when work is spread among many employees and short-time operations prevail. The large increase of 55 per cent in output of basic manufacturing industries from March to June has, in fact, been accomplished with the addition of only 650,000 factory workers, or 13 per cent. The mining industries, which increased their output by 9 per cent, did so without employing any additional workers; in fact, the number of their employees declined by about 50,000 between March and June, principally because of reductions in working forces at anthracite mines. The recent increase of railroad freight traffic between March and May necessitated hiring not more than 20,000 employees, or 2 per cent. Added activity in these basic industries spreads in a widening circle, however, and has come at a time when agriculture and other seasonal industries are employing more men. The American Federation of Labor estimates that between one and three-quarters and two million workers have found jobs



since March. Unemployment, however, is still estimated at more than 11,-500,000.

Factory workers' earnings increased by 26 per cent from early March to June, but they are still as small as in the spring of 1932, and are about 55 per cent smaller than in 1929. This apparent disparity between the increase in manufacturing production and factory payrolls is due in part to the sources of statistical material; measures of production do not include many finished goods, such as clothing, which require a relatively large amount of labor, but are based chiefly on output of semi-finished products, in which labor is relatively less important.

Similarly, income of railroad workers, while it has increased recently, is about half as large as in 1929, while miners are now earning 15 per cent less than in March and 70 per cent less than in 1929.

The following table compares production, employment, and earnings in the year 1929, and in March and June 1933, for manufacturing and mining, with certain data also for railroads. The chart compares, for manufactures, the course of production, employment, and payrolls during recent months and for a series of years.



## CHANGES IN OUTPUT, EMPLOYMENT, AND EARNINGS IN BASIC INDUSTRIES

(Output and carloadings, unadjusted index numbers of Federal Reserve Board, 1923-1925 = 100; employment and earnings, estimated totals)

	1929 (year)	March 1933	June 1933	Change March to June 1933 (Per cent)
<u>Manufacturing</u>				
Output	119	58	p 89	+ 55
Number of wage earners (In thousands)	8,839	4,941	p 5,595	+ 13
Payrolls, average weekly (In millions of dollars)	223	76	p 96	+ 26
<u>Mining</u>				
Output	115	74	80	+ 9
Number of wage earners (In thousands)	712	421	373	- 13
Payrolls, average weekly (In millions of dollars)	19	6	5	- 15
<u>Railroads</u>				
Carloadings	106	48	60	+ 26
Number of employees	1,686	934	*951	*+ 2
Payrolls, average weekly (In millions of dollars)	57	25	...	...

p/ Preliminary.

\*/ May figures, latest available.







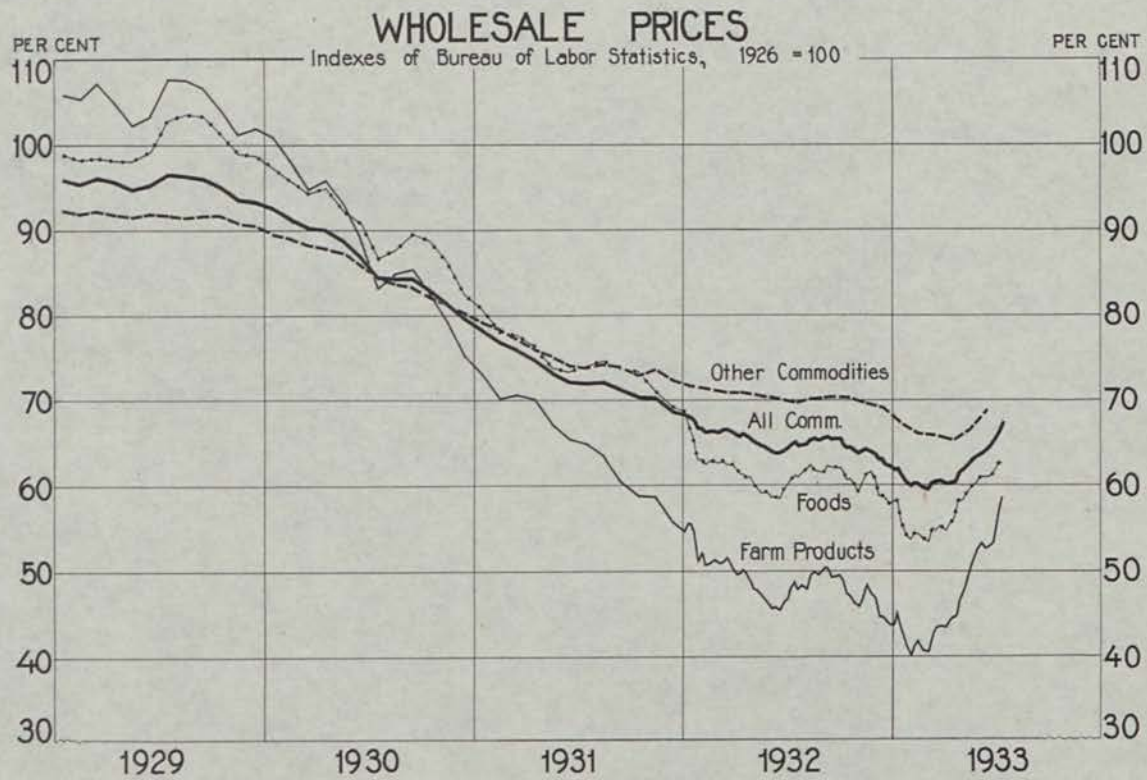
Commodity prices

In wholesale commodity markets prices have been rising since the first week in March, and up to mid-July the average level had advanced by about 14 per cent, according to the index of the Bureau of Labor Statistics which includes nearly 800 commodity quotations.

Wholesale prices of manufactured goods and of materials not sold in organized markets have advanced much more slowly than those of staple raw materials. This is especially true of prices for finished and semi-finished metal products, fuel and lighting materials, household articles, chemicals, etc. In textiles, foods, leather, and other industries in which raw materials constitute an important factor in cost of output and in which there has been an increase in demand prices of finished goods have advanced rather rapidly.

The chart shows the course of prices of all commodities, of farm products, of foods, with weekly figures since the beginning of 1932, and of all other commodities, for which only monthly figures are available. The large increase in prices of farm products during recent months reflects in large part a rapid advance in grains, accompanying weather conditions harmful to the growing crops, and in cotton, accompanying the development of measures for curtailing the current crop; considerable improvement in prices of dairy products, fruits, and vegetables; and a moderate advance in live stock.



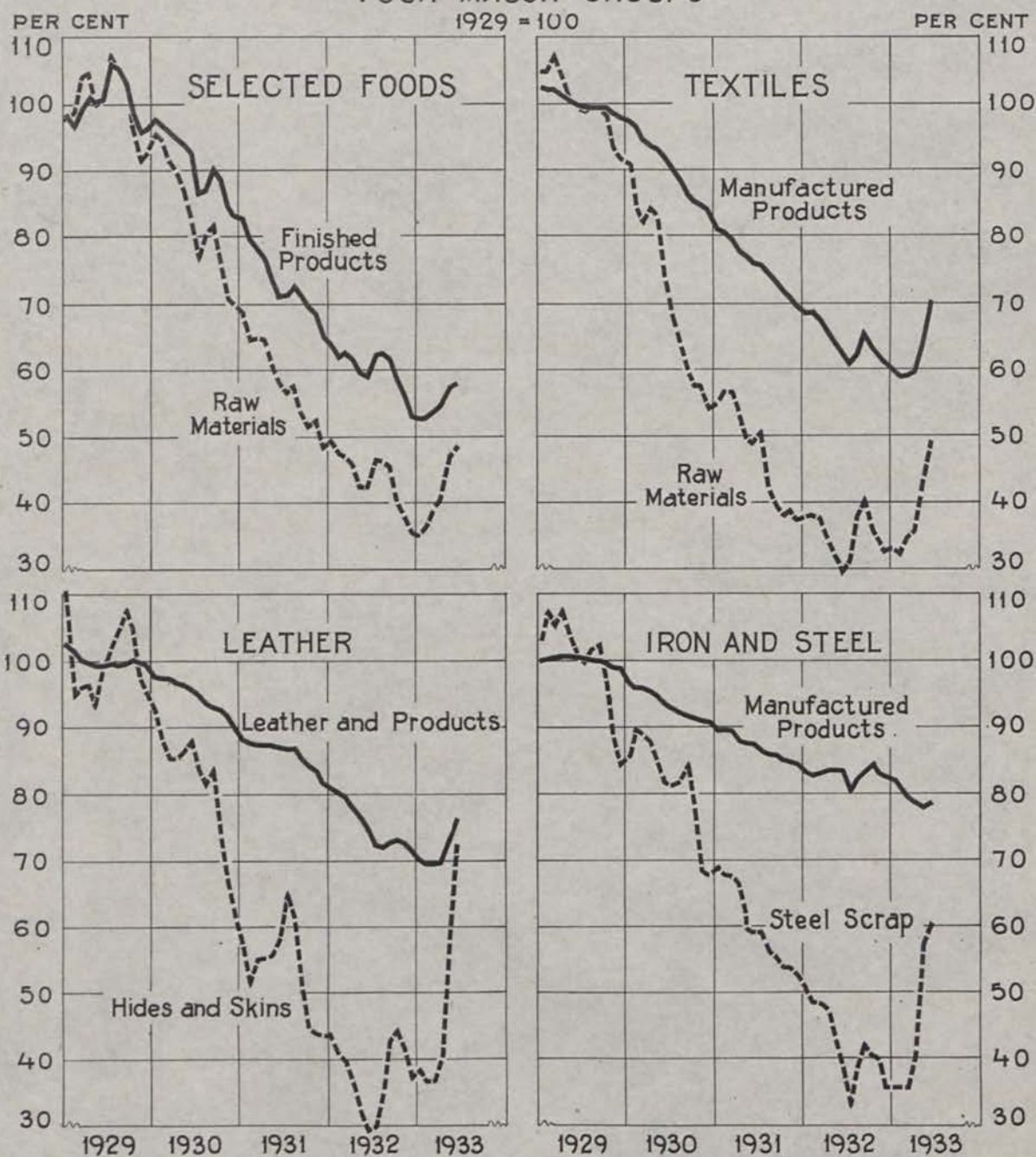




Relative changes in prices of finished products and of the raw materials from which they are made are illustrated on the following chart for four different groups of commodities--foods, textiles, leather, and iron and steel. In each case the comparison is made in terms of index numbers with the average for the year 1929 as 100. The chart shows that during the past four years the price of raw materials in each of these groups declined to a much greater extent than the price of the finished product. During recent months, however, when the direction of price movements has been reversed, raw material quotations have risen in general much more rapidly than prices of finished products, with the result that for the groups shown on the chart the spread between the two types of quotations has been considerably reduced. In a few cases, however, where demand has been especially heavy, analysis of the underlying data shows that prices of finished goods have risen at about the same rate as the price of raw materials, and for some goods, such as cotton textiles, the rise has been even more rapid.



# WHOLESALE PRICE MOVEMENTS FOUR MAJOR GROUPS





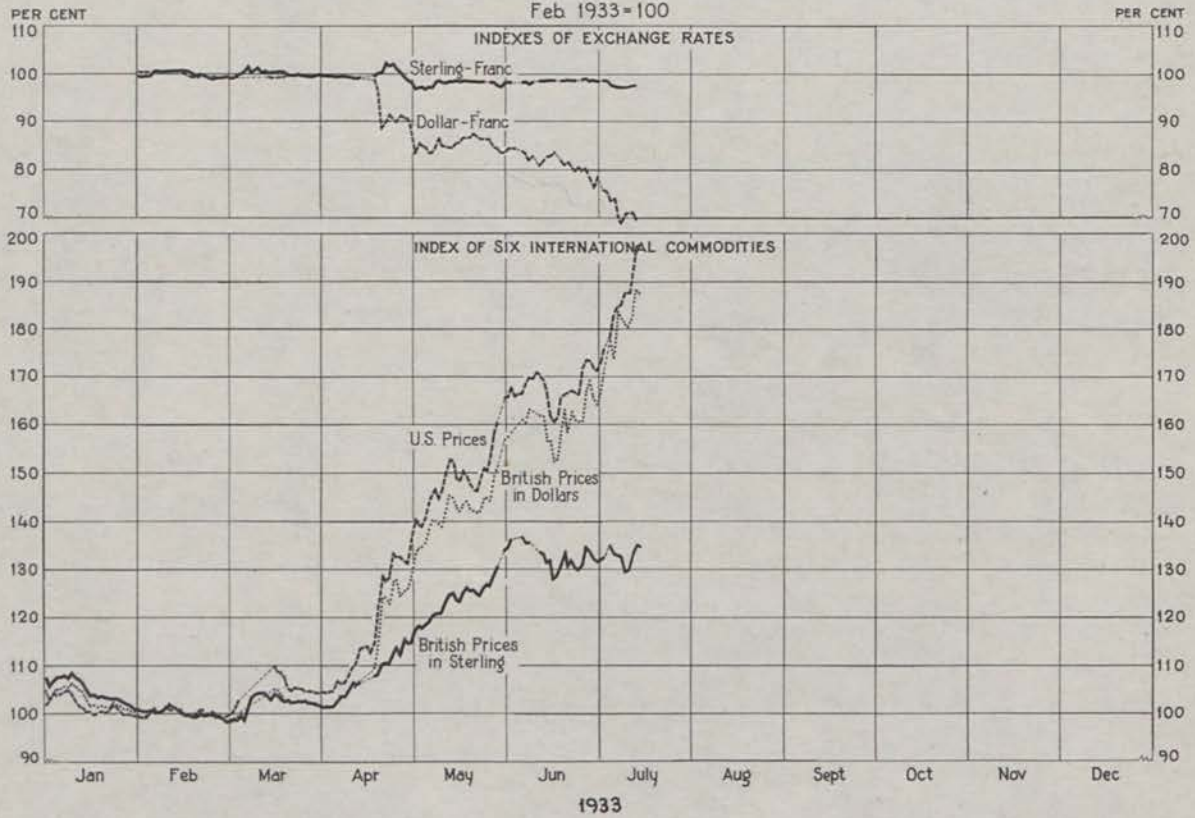
The prices of international commodities, particularly raw materials that are traded in on organized exchanges, have advanced rapidly in this country since the middle of April, reflecting an increase in world prices, the decline in the exchange value of the dollar, and in certain instances other factors which have been operative in the American markets.

Changes in the exchange value of the dollar in relation to the British pound are shown in the upper section of the chart which compares fluctuations in the Paris quotations of the British pound and the United States dollar. The comparison is made in terms of the French franc, the most important currency now on a gold basis, and shows percentage changes in quotations as compared with February of this year. The quotation on the dollar had fallen by about 15 per cent in early June and is now 30 per cent lower, in terms of the French franc, than before the United States went off the gold standard. Meantime, the British pound, in terms of the franc, has declined by only 2 to 3 per cent, so that British markets since February have reflected substantially the changes in world gold prices.



## PRICES AND EXCHANGE RATES

Feb 1933=100





The extent to which the rise in prices of international commodities in American markets has corresponded, on the one hand, to changes in the value of the dollar abroad, and on the other hand, to changes in world prices, is shown on the lower section of the chart. Each of the three lines represents a simple index since January of daily prices of six basic materials--cotton, lard, silver, copper, tin, and rubber. The lower line is an index of these six international commodities in British markets in terms of the pound sterling, and shows that on the average, prices of these commodities in Great Britain had advanced by about 35 per cent between February and the first week in June, and since that time they have declined slightly, fluctuating around a level 30-35 per cent above that prevailing in February. Meanwhile, prices of these commodities in the United States, illustrated by the upper of the three lines, had advanced by about 65 per cent by the first week in June, or almost twice as much as in British markets. In the next six weeks, while world prices declined slightly, American prices of these commodities continued to advance rapidly, and in mid-July were almost twice as high as in February. Of this rise of nearly 100 points in the index by mid-July, about 35 points represent a rise in the world price level, another 55 points the depreciation of the dollar, and about 10 points represent price advances in American markets in excess of both the advance in British prices and of the decline of the dollar in the exchange market.

It is to be noted that depreciation of dollar exchange encourages our exports only to the extent that it is not accompanied by a corresponding advance in our prices. Commodities that have advanced in price more rapidly relative to world prices than the dollar has declined are in a less advantageous position in world trade than they were before the dollar began to depreciate.



Finished goods, on the other hand, which have advanced in price considerably less than the dollar has declined, have gained an advantage in export trade.

### Security prices

Security prices, after an irregular decline from September of last year to March of this year, began to advance early in April, both for stocks and for bonds, and this has continued without important interruption to the present time. The gains in stock prices have been very rapid, the Standard Statistics weekly index rising in a little over three months from 42 per cent of the 1926 average to about 85 per cent. A comparable percentage increase required over two years in the bull market of 1927-1929. The present level of stock prices is roughly two and a half times as high as that of June 30, 1932. In bonds the gains have been most notable in the speculative issues. The average price of all domestic corporate obligations listed on the New York Stock Exchange has increased from \$60 on the first of April to approximately \$76 at the present time. United States Government obligations, which declined sharply during the spring banking crisis, have almost completely recovered the ground lost at that time and, except for a few days in January and February of this year, are now at their highest level since September 1931.



Security issues

Apart from offerings of United States Government securities, which exceeded retirements by \$1,700,000,000 during the first six months of the year, new bond and stock issues have been negligible. Corporation offerings, including refunding issues, have been about \$200,000,000, while State and municipal offerings have been less than \$250,000,000. These new issues have been exceeded in volume by maturities and redemptions of outstanding securities, which for corporations alone amounted to over \$800,000,000. During the six months under review the Reconstruction Finance Corporation supplied more money to corporations than they raised in the security markets, advances being \$650,000,000. Advances to State and local governments by the Reconstruction Finance Corporation and the Emergency Relief Administration were about \$250,000,000. The recent improvement in security prices has been a factor in stimulating some increase in flotations, but as yet the increase has been very moderate.

The mortgage money market

New mortgage loans on real estate have declined to a negligible amount. The financial institutions which ordinarily supply most of the new mortgage money are for the present at least almost out of the market. The recent experience of commercial banks with frozen real estate loans has disinclined them to further mortgage commitments. Mutual savings banks are currently suffering a shrinkage of deposits and are more interested in liquidating existing real estate loans than in making new ones. Building and loan associations are for the most part still operating under restrictions and are therefore making few new loans. Life insurance companies have also almost ceased buying mortgages. The mortgage institutions recently set up by the Government are primarily concerned with the refinancing of old mortgages rather than with financing new borrowing. Their activities have not yet produced a supply of money at reasonable rates for the support of construction activities. This situation has been a factor in the tardiness with which building



has revived.

#### Member bank credit

The revival of business so far has not resulted in a considerable growth of bank credit, but has been reflected in a more active use of the credit already outstanding.

Since the middle of June loans of member banks have reflected chiefly a growth in brokers' loans, accompanying increased activity on the stock market and the rise in security prices. Bank loans to brokers in New York City increased from a low point of \$375,000,000 on April 12 to \$782,000,000 on June 14 and to \$955,000,000 on July 12. The increase was for the most part in brokers' loans by New York banks for their own account, though loans for account of out-of-town banks also increased. Security loans to others than brokers declined during the period, but not by an amount sufficient to offset the growth in brokers' loans.

Member bank investments in United States Government securities, which had increased rapidly between the middle of March and the middle of June, changed relatively little after that time. Investments in other securities showed little change and loans other than security loans showed no considerable growth.

The banks' deposit accounts since the middle of June have reflected chiefly the effects of the Glass bill, which prohibits the payment of interest on demand deposits. Between June 14 and July 12 net demand deposits of the reporting member banks in 90 cities declined by about \$500,000,000, while time deposits increased by \$250,000,000 and bankers' balances decreased by about \$300,000,000.

#### Unlicensed banks

The volume of deposits frozen in closed banks or banks operating under restrictions continues to be a retarding factor in the recovery of business, although progress has been made in diminishing the amount of deposits tied up in restricted banks.



Notwithstanding this progress there was still at the end of June a large volume of deposits in banks not having licenses or operating under restrictions. About 1,100 member banks with deposits of over \$1,000,000,000 had not yet been licensed; mutual savings banks with deposits of \$7,000,000,000 were operating under restrictions regarding withdrawals, and about 2,000 other nonmember banks with deposits of about \$1,000,000,000 had not yet been licensed or were operating on a restricted basis.



1. Banks that are in good condition
2. Banks which are in fair condition, and which can obtain locally such financial assistance as will afford them relief in the matter of their capital structure
3. Banks that are in a weakened condition and will require assistance in the way of preferred stock to build up and strengthen their capital structure certainly before June, 1934
4. Banks that are, or in the near future may become, emergency cases, and that require attention now in the matter of rebuilding their capital structure through preferred stock and/or may need additional credit



*Percent Interviewed*

		Percent Interviewed					
		Class 3(C)	Rank	Class 4(D)	Rank	Total	Rank
8	#1-Boston	43.2	8	66.6	5	45.6	8
7	#2-New York	54.4	7	9.1	8	52.5	7
9	#3-Philadelphia	30.2	9	10.	7	29.1	9
2	#4-Cleveland	96.8	2	100.	1	97.3	2
1	#5-Richmond	100.	1	100.	1	100.	1
3	#6-Atlanta	93.9	3	100.	1	94.6	3
5	#7-Chicago	79.7	5	83.1	4	80.9	5
16	#8-St. Louis	12.9	10	15.5	5	13.8	10
4	#9-Minneapolis	90.3	4	95.6	2	91.8	4
11	#10-Kansas City	11.6	11	14.3	6	12.5	11
6	#11-Dallas	76.7	6	87.5	3	78.4	6
	#12-San Francisco	----		----		----	
Grand total		51.9		53.6		52.2	

9/29/33

*Percent Interviewed*

1	Richmond	100
2	Cleveland	97.2
3	Atlanta	94.6
4	Minneapolis	91.8
5	Chicago	80.9
6	Dallas	78.4
7	N.Y.	52.5
8	Boston	45.6
9	Phila	29.1
10	St. Louis	13.8
11	Kan. c.	12.5



July 20, 1933.

PRELIMINARY MEMORANDUM FOR THE OPEN MARKET COMMITTEE

July 20, 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 from the low points of the year are given in the following table:

	<u>1933 Low</u>	<u>Latest</u>	<u>Per cent Change</u>
Industrial Production - - - - - (F. R. Board monthly index)	60 (Mar.)	88 (June Prel.)	+ 46.7
Merchandise and miscellaneous carloadings (F. R. Bank of N. Y. weekly index)	46.1 (Mar.11)	60.7 (July 8)	+ 31.7
Wholesale prices of 285 commodities - - (F. R. Board weekly index)	59.6 (Mar.3)	69.5 (July 14)	+ 16.6
Wholesale prices of 15 basic commodities (Moody's daily index)	78.7 (Feb.4)	148.9 (July 18)	+ 89.2
Prices of 90 stocks - - - - - (Standard Statistics Co. daily index)	43.9 (Feb.27)	96.9 (July 18)	+120.7
U. S. Government bonds - - - - - (F. R. Bank of N. Y. average)	98.8 (Mar.3)	103.2 (July 18)	+ 4.5
Domestic Corporation Bonds - - - - - (Stan.Stat.Co. daily index of 60 units)	63.6 (Mar.3)	83.3 (July 18)	+ 31.0
Dollar-franc rate of exchange	.039179 (Par)	.057025 (July 18)	+ 45.5

System open market purchases were resumed in the week beginning May 18. To July 19 the System bought \$180,000,000 of securities, member bank reserves increased \$170,000,000, and surplus reserves increased \$150,000,000 (from \$311,000,000 on May 17 to \$460,000,000 on July 19). These changes in reserves are ascribable mainly to a decrease of money in circulation of \$220,000,000. Total Federal Reserve Credit decreased \$55,000,000, owing chiefly to a decrease of \$165,000,000 in



rediscounts and of \$70,000,000 in bills, which have brought discounts on July 19 to the very low figure of \$164,000,000 and bills to \$10,000,000. It is to be expected that the continued inflow of currency from hoarding will further decrease discounts and further increase member bank reserves. In the period May 17 to July 12 loans and investments of weekly reporting banks increased \$378,000,000 and total deposits \$641,000,000.

The chief feature of recent weeks has been the transfer of surplus reserves from New York to the interior. From May 24 to July 18 New York City surplus reserves declined \$137,000,000 to \$29,000,000, while surplus reserves outside New York increased \$190,000,000 to \$400,000,000. The main outlines of the movement of surplus reserves since the bank holiday are as follows:

<u>1933</u>	<u>Member Bank Reserves</u>	<u>Total Surplus Reserves</u>	<u>N.Y. City Surplus Reserves</u>	<u>Outside Surplus Reserves</u>
January 4	2514	578	274	304
March 8	1776	88	0	88
April 19	2159	426	200	226
May 3	2034	260	16	244
May 17*	2114	311	84	227
May 24	2194	376	166	210
June 14	2281	410	125	285
June 28	2286	465	61	404
July 5	2219	392	- 22	414
July 12	2269	447	+ 22	425
July 18	2252 est.	430 est.	29	401 est.
July 19	2282 est.	460 est.	-	-

\*Open market purchases resumed.

While the transfer of reserves from New York to the country appears to have begun in May, it has been most marked since June 14 following the passage of the Banking Act of 1933. The termination of interest payments on demand deposits has been followed by large withdrawals of bankers' balances from New York and by an even larger decline in New York net demand deposits. On several occasions since July 5 the New York City banks have had to borrow Federal funds. New York City deposits



"due to banks" have experienced very wide swings during the current depression, and now amount to about \$1,200,000,000. Despite the recent withdrawals, they are still some \$200,000,000 to \$300,000,000 above their average post-war level. The current decline has followed a very rapid building up of these balances in the period from the bank holiday to the middle of May.

The reduction in New York reserves has been accompanied by some firming tendency in money rates indicated particularly by increases in the rates on Treasury bills from 0.24% to 0.39%.

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See Aa

October 7, 1933.

PRELIMINARY MEMORANDUM FOR THE FEDERAL OPEN  
MARKET COMMITTEE, OCTOBER 10, 1933

Since the July meeting of the Committee, the gold value of the dollar has fluctuated widely and on the whole has shown a further decline, but commodity and security prices, instead of showing a further rise, have had a considerable reaction. Industrial activity has declined somewhat, especially in the industries that expanded operations most rapidly from March to July. Excess reserves of member banks have been increased further to between \$700,000,000 and \$800,000,000, largely as the result of open market purchases of Government securities by the Reserve Banks, and have become widely distributed, but in general there has been no further expansion of member bank credit.

During the latter part of July, the depreciation of the dollar in terms of gold was reduced from 51 per cent to about 26 per cent, but, after holding around the latter level during the first three weeks of August, the depreciation of the dollar increased rapidly and since the middle of September has been between 54 and 56 per cent. Although fluctuations in the value of the dollar have been followed to some extent by the prices of basic commodities, especially the principal import commodities and certain farm products such as cotton and grain, basic commodities in general have shown no net rise since August, and a considerable decline since the middle of July, despite the further depreciation of the dollar. In fact, there have been indications that the depreciation of the dollar as a stimulus to speculative buying of commodities has been losing force.

As the accompanying diagram shows, basic commodity prices in terms of gold, which during June and July showed an average increase of at least 15 per cent over April 1, in the early part of October showed a small decline.

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Per Cent Change in Prices Since April 1

	<u>July High Point</u>	<u>Latest</u>
Basic Commodities, Wholesale (Moody's index)	+72.3 (July 18)	+50.9 (Oct. 5)
All Commodities, Wholesale (B.L.S. index)	+16.0 (July 22)	+19.3 (Sept. 30)
Price of Gold*	+45.6 (July 18)	+54.4 (Oct. 5)

\*Computed from French franc quotation

Change in Commodity Prices Relative to Price of Gold Since April 1

Basic Commodity Prices	+18.3% (Jul.18)	- 2.3% (Oct. 5)
All Commodity Prices	-16.5% (Jul.22)	-22.6% (Sept.30)

While basic commodity prices have shown wide fluctuations and in general some decline since the middle of July, general indexes of wholesale commodity prices that include prices of finished goods have continued to move gradually upward, reflecting the increased cost of producing finished products. Since the beginning of April, however, the rise in the general commodity indexes has been less than 20 per cent, as compared with a rise of more than 50 per cent in the price of gold, so that, in terms of gold, the general level of commodity prices in this country has shown a considerable decline.

The influence of the depreciation of the dollar on the security markets also has shown signs of weakening during the past three months. In fact, in the case of bond prices, the recent effect of dollar depreciation has been adverse, whereas during the earlier depreciation of the dollar from March to April bond prices rose along with stock prices. The recent decline in bond prices appears to have been due partly to a flight of domestic and foreign capital from this country, and partly to a transfer of investment funds from bonds to stocks, both movements being caused primarily by uncertainty as to the future value of the dollar. The decline has canceled approximately 40 per cent of the rise in bond



prices from April to July, and, by again increasing the depreciation in bank investments, has had an adverse influence on the banking situation. During the past few days, however, greater stability of the dollar has been accompanied by a somewhat firmer bond market.

#### Bank Credit

The total loans and investments of reporting member banks in principal cities have shown no further expansion since the middle of June, as the following diagram shows, notwithstanding the fact that excess reserves of member banks have doubled. Loans other than security loans of reporting banks have continued to show a gradual increase, but there has been some decline in security loans, and the increase in investments has been checked. Government security holdings, in which the principal expansion of bank credit has occurred during the past two years, have shown no further increase, probably due in part to the heavy demand for such securities following the elimination of interest payments on demand deposits, and in part to Reserve Bank purchases. Other investments, which are not shown in the diagram, have shown little change in many months.

It is probable that member banks have been restrained from extending further credit, especially through investments, by the various uncertainties in the situation - specifically the uncertainties relating to the future value of the dollar, the business prospect, and the effect of the insurance of bank deposits.

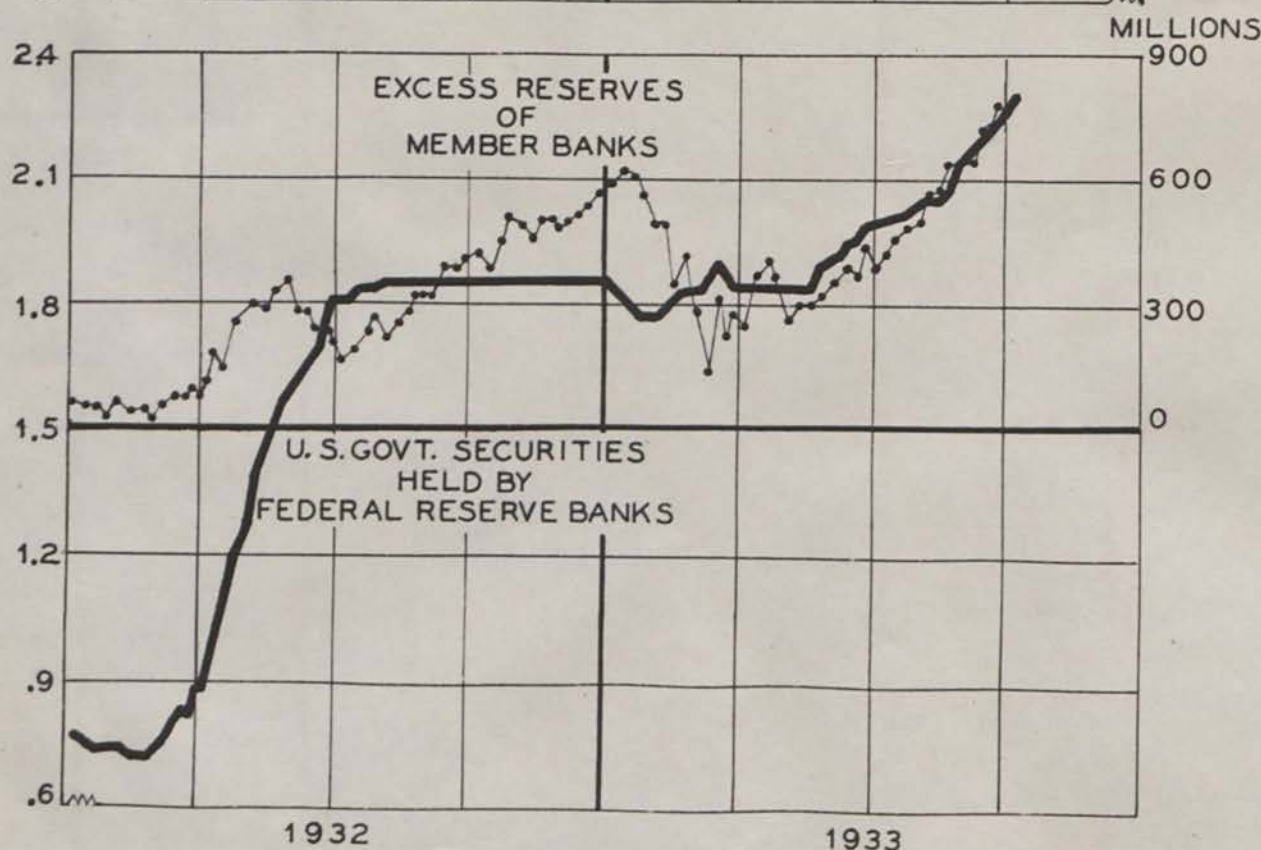
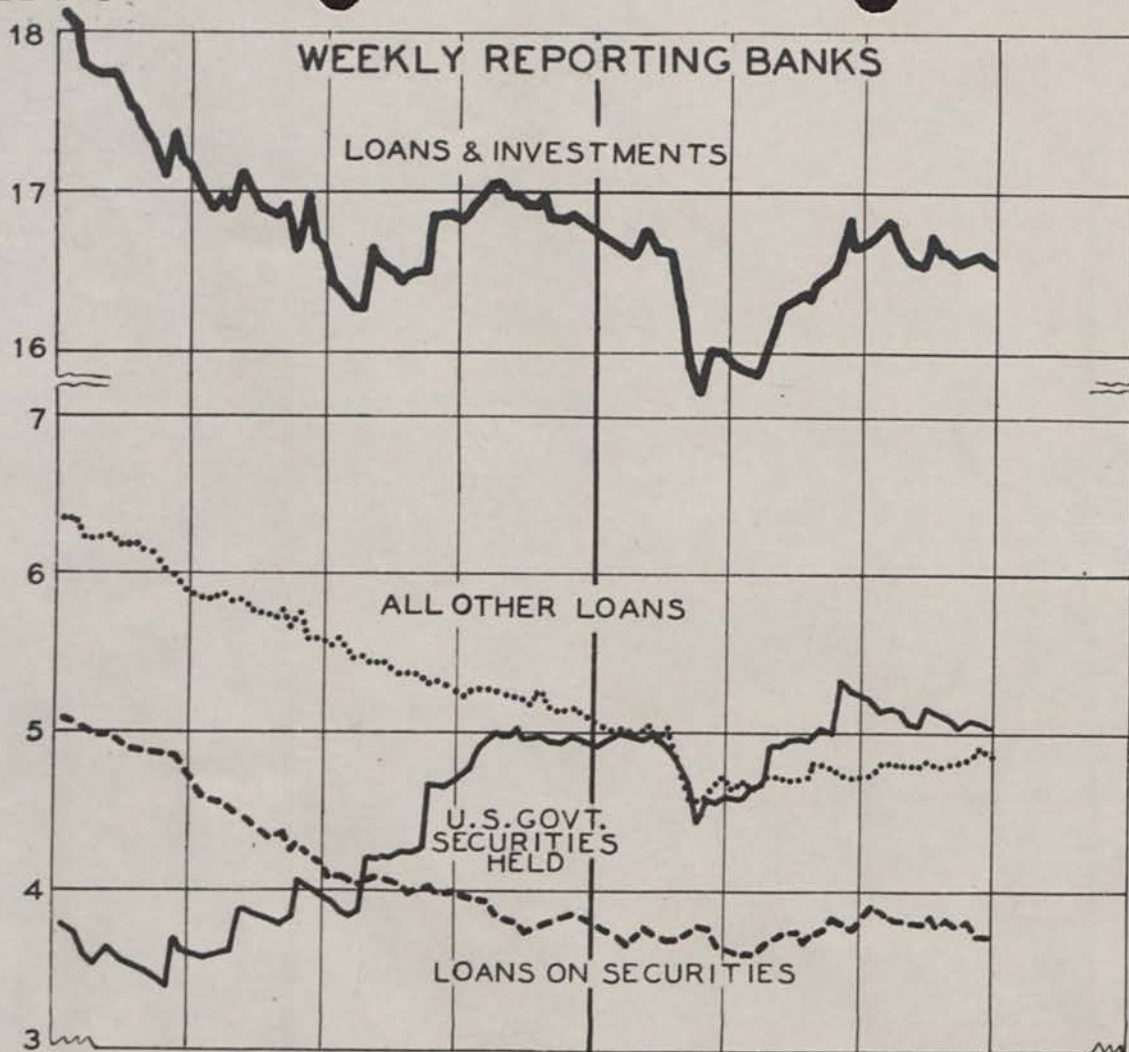
#### Recent Business Developments

During the past two months there has been a considerable slackening of industrial activity, especially in the industries that expanded operations most rapidly from March to July in anticipation of higher prices of raw materials and higher production costs. Meanwhile, there has been a slight improvement in the construction and equipment industries, which tended to lag in the early stages of



BILLIONS

Oct. 2 1933 2580



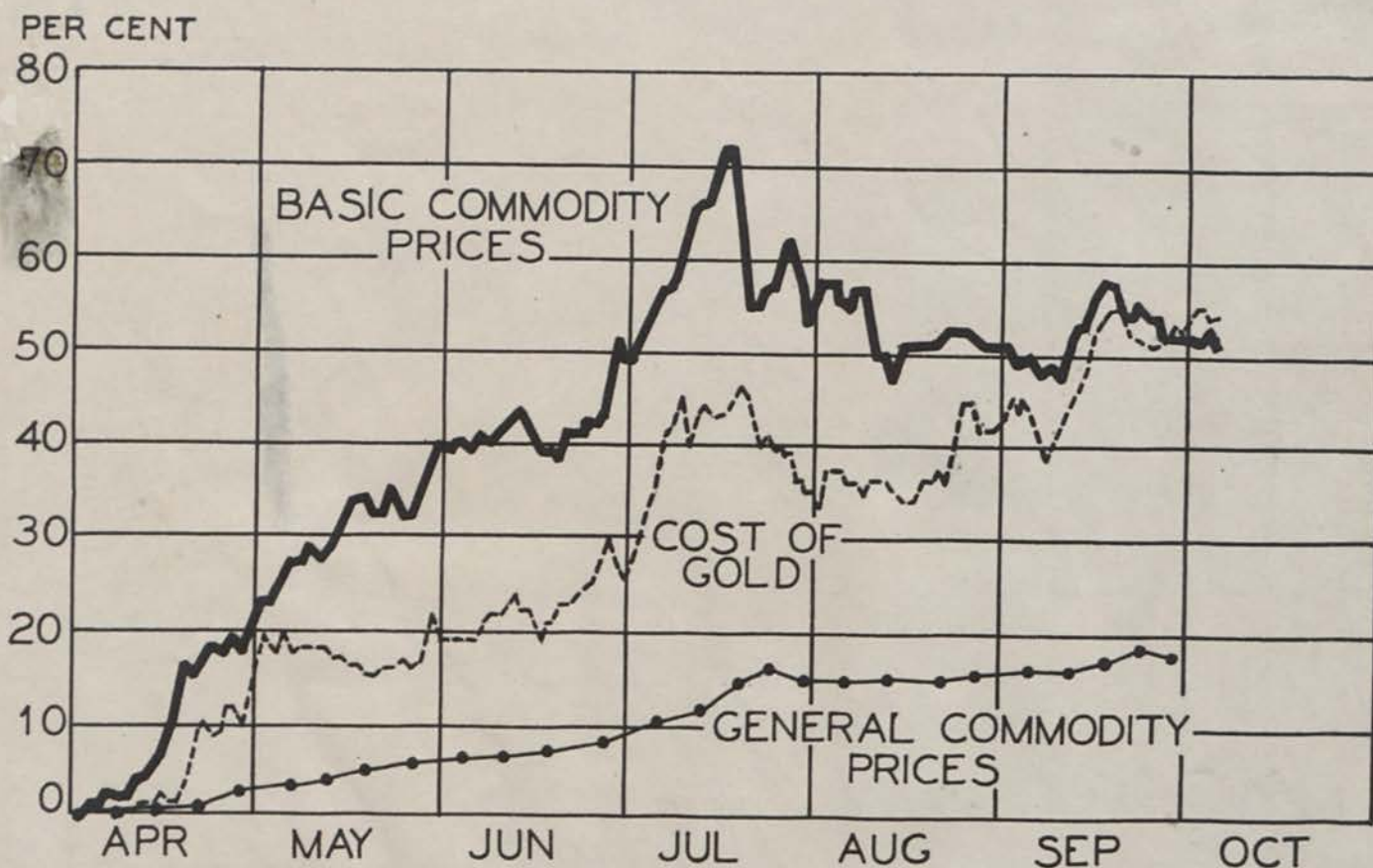
Changes in Member Bank Credit During the Period of Heavy Purchases of Government Securities by Federal Reserve Banks and Accumulation of Excess Reserves in Member Banks



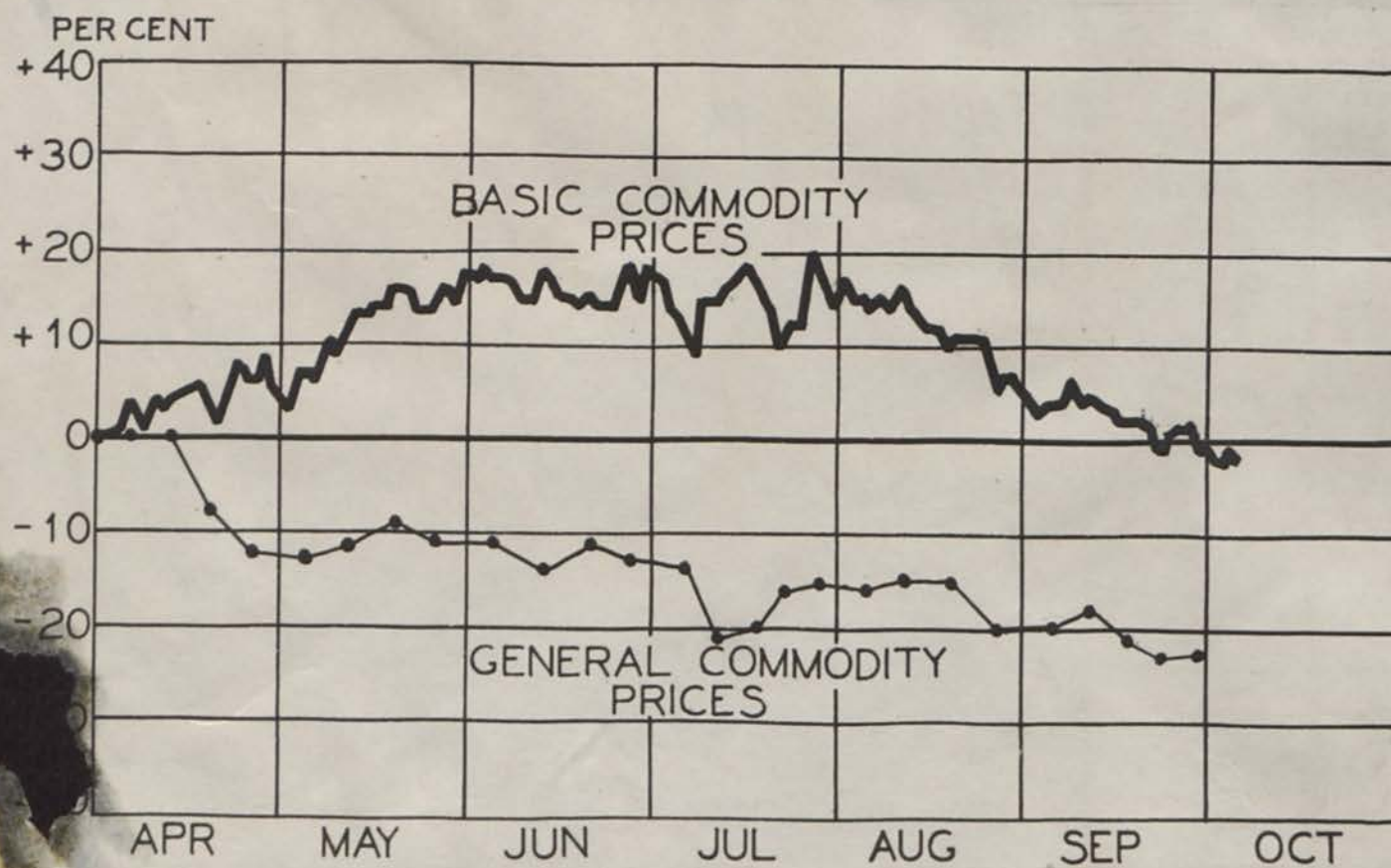
business recovery, but operations in these industries remain at a very low level relative to past years. A large part of the existing unemployment is due directly or indirectly to the depressed conditions of these industries, which are dependent upon the employment of new capital. The public works program of the Government and proposed loans to railroads for rail and equipment purchases will tend to cause some further revival in the heavy industries during the coming months, but a resumption of private investment which is needed to bring about a full recovery of the heavy industries, is not yet in prospect, as the flotation of new capital issues remains practically at a standstill.

Notwithstanding the curtailment of operations in several important industries since July, the reemployment of workers in manufacturing and other industries has continued, due largely to the adoption of industrial codes under the National Recovery Act. By the end of August the increase in the number of workers employed was estimated by the American Federation of Labor at 2,800,000, and some further increase probably occurred in September. As the work of bringing industries under N.R.A. codes is brought toward completion, however, the problem of eliminating unemployment depends more largely upon recovery in the industries that have lagged.





Change in Wholesale Prices since April 1, in Dollars.



Change in Wholesale Prices since April 1, in Terms of Gold.



See Bk

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REPORT OF OPEN MARKET OPERATIONS TO MEETING OF THE  
FEDERAL OPEN MARKET COMMITTEE HELD IN WASHINGTON  
ON OCTOBER 10, 1933

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At the time of the last meeting of the Federal Open Market Committee held in Washington on July 20, 1933, the total amount of holdings of United States Government securities in the System Account was - - - - \$1,810,349,500.

Under authority of resolutions adopted at the meeting of the Open Market Policy Conference on April 22, 1933, later amended by telegraphic vote, approved by the Federal Reserve Board on May 12, reaffirmed by the Federal Open Market Committee on July 21, and by the Federal Reserve Board on July 24, and by agreement of the Executive Committee, purchases of short-term United States Government securities were made for the System Account as follows:

Week ended July	26	\$10,000,000
" " August	2	10,000,000
" " "	9	10,000,000
" " "	16	10,000,000
" " "	23	35,000,000
" " "	30	36,000,000
" " September	6	37,300,000
" " "	13	36,000,000
" " "	20	36,000,000
" " "	27	36,000,000
" " October	4	<u>35,500,000</u>
Total Purchases		<u>\$291,800,000</u>

These purchases increased the amount of total holdings in the System Account to - - - - - \$2,102,149,500

Other transactions effected in the System Account since the July 20 meeting consisted of

- (1) Redemption of \$254,263,000 aggregate amount of Treasury bills at maturity, and \$22,651,700 - 4% Treasury certificates of indebtedness maturing August 15, 1933, which were replaced by purchases in the market of \$276,914,700 aggregate amount of short-term issues of government securities.



- (2) Exchange at maturity, by exchange subscription, of \$37,753,300 - 4% Treasury certificates of indebtedness, matured August 15, 1933, and \$93,563,000 - 1 1/4% Treasury certificates of indebtedness matured September 15, 1933, for like amounts of 1 5/8% Treasury notes due August 1, 1935, and 1/4% Treasury certificates of indebtedness due June 15, 1934, respectively.
- (3) Exchange in the market of \$94,370,000 aggregate amount of short-term issues of government securities for a like par amount of other issues of short-term government securities.
- (4) Sale to various Federal Intermediate Credit Banks of \$24,500,000 - 1 1/4% Treasury certificates of indebtedness, due September 15, 1933, which was replaced by purchases of other issues of government securities - \$21,500,000 from the Federal Intermediate Credit Banks and \$3,000,000 in the market.

The following is a statement of the issues of United States Government securities held in the System Account on July 19, 1933 (as reported to meeting of Federal Open Market Committee on July 20) and on October 4, 1933:

		<u>July 19, 1933</u>	<u>October 4, 1933</u>
U. S. Treas. Bills due July	26, 1933	\$33,700,000	\$ 0
" " " " August	2, 1933	800,000	0
" " " " "	9, 1933	14,400,000	0
" " " " "	16, 1933	20,600,000	0
" " " " "	23, 1933	17,500,000	0
" " " " "	30, 1933	28,950,000	0
" " " " September	6, 1933	19,500,000	0
" " " " "	20, 1933	20,830,000	0
" " " " "	27, 1933	25,895,000	0
" " " " October	4, 1933	35,688,000	0
" " " " "	11, 1933	14,000,000	23,300,000
" " " " "	18, 1933	800,000	20,000,000
" " " " "	25, 1933	0	18,425,000
" " " " November	1, 1933	0	23,800,000
" " " " "	8, 1933	0	29,980,000
" " " " "	15, 1933	0	20,500,000
" " " " "	22, 1933	0	33,171,000
" " " " "	29, 1933	0	58,950,000
" " " " December	6, 1933	0	41,900,000
" " " " "	20, 1933	0	17,200,000
" " " " "	27, 1933	0	49,845,000
" " " " January	3, 1934	0	37,250,000



					July 19, 1933	October 4, 1933
4	%	Cert. of Ind. due	August	15, 1933	\$ 60,405,000	\$ 0
1	1/4%	" " " "	September	15, 1933	182,433,000	0
	3/4%	" " " "	December	15, 1933	85,754,000	73,254,000
4	1/4%	" " " "	"	15, 1933	101,020,000	99,520,000
	3/4%	" " " "	March	15, 1934	133,650,000	157,400,000
3	%	Treasury Notes	May	2, 1934	107,887,000	108,387,000
	1/4%	Cert. of Ind.	June	15, 1934	0	134,563,000
2	1/8%	Treasury Notes	August	1, 1934	148,277,000	153,602,000
3	%	" " " "	June	15, 1935	90,577,000	106,748,700
1	5/8%	" " " "	August	1, 1935	0	72,053,300
2	7/8%	" " " "	April	15, 1936	116,487,500	159,604,500
3	1/4%	" " " "	August	1, 1936	32,892,000	46,092,000
2	3/4%	" " " "	December	15, 1936	70,443,000	88,693,000
3	%	" " " "	April	15, 1937	33,025,000	63,875,000
3	1/4%	" " " "	September	15, 1937	58,650,000	80,100,000
2	5/8%	" " " "	February	1, 1938	19,570,000	25,570,000
2	7/8%	" " " "	June	15, 1938	1,000,000	19,750,000
3	1/2%	First L/L Bds of	1932/47		25,025,000	25,025,000
4	1/4%	" " " "	1932/47		29,000,000	29,000,000
4	1/4%	Fourth " " "	1933/38		281,591,000	281,591,000
					<u>\$1,810,349,500</u>	<u>\$2,102,149,500</u>

Participation and Outright Holdings of  
United States Government Securities

All Reserve Banks have participated in new purchases to the full amount of their allotments on the basis of the resolution of the Open Market Policy Conference at its meeting on April 22, as follows:

VOTED to be the sense of the conference that the executive committee should be instructed to work out a system of allotment of existing holdings as well as new purchases of government securities with a view to arriving at a more equitable relationship of reserve percentages.

The percentages of allotment from week to week are shown in the attached Exhibit D. The actual formula used for allotments was as follows: from May 31 to September 20, ratio of each bank's excess reserves over a 55% ratio to the System total; from September 21 on, ratio of each bank's excess reserves over 50% to the System total. A further Exhibit E shows the changes in the reserve percentages of the different Federal reserve banks on April 26, July 26, and on October 4, showing that the allotment of securities in accordance with this program has resulted in some equalization of reserve percentages.



The following is a statement showing the amount of each Reserve bank's participation in the new purchases made for System Account since July 20, 1933, and in the total holdings in the System Account on October 4, 1933, and each Federal Reserve bank's holding ratio, i. e., the ratio percentage that each Federal Reserve bank's holdings in the Account bear to the total holdings in the Account, also, the amount of each Federal Reserve bank's outright holdings of United States Government securities at the close of business October 4, 1933:

	<u>Participation in New Purchases</u>	<u>Participation in Total Holdings</u>	<u>Holding Ratios</u>	<u>Outright Holdings</u>
Boston	\$ 31,639,500	\$ 145,386,000	7 %	\$ 703,550
New York	45,617,000	677,091,500	32 1/4%	120,296,550
Philadelphia	14,209,500	155,534,500	7 1/4%	3,385,500
Cleveland	18,665,000	203,169,500	9 3/4%	0
Richmond	13,857,500	72,540,500	3 1/2%	0
Atlanta	10,237,500	66,412,500	3 1/4%	26,200
Chicago	104,287,000	360,991,500	17 1/4%	62,741,700
St. Louis	12,582,000	86,991,000	4 %	500,000
Minneapolis	5,196,500	54,883,500	2 1/2%	7,089,050
Kansas City	12,766,000	76,050,000	3 1/2%	181,600
Dallas	2,778,000	46,302,500	2 1/4%	10,000,000
San Francisco	19,964,500	156,796,500	7 1/2%	0
Totals	<u>\$291,800,000</u>	<u>\$2,102,149,500</u>	<u>100 %</u>	<u>\$204,924,150</u>

On September 15 and 20, the Federal Reserve Bank of Dallas increased its participation in the System Account \$2,500,000 and \$2,000,000 respectively, in order to improve its earning position for the balance of the year. This sale was made from the Federal Reserve Bank of New York's participation temporarily and later apportioned between the Federal Reserve banks, which expressed a desire to participate in the sale as follows:

Boston	\$ 323,000	Chicago	\$780,000
New York	1,578,000	St. Louis	198,500
Philadelphia	346,500	Minneapolis	127,000
Cleveland	472,000	Kansas City	165,500
Atlanta	151,500	San Francisco	358,000



System Purchases of Bankers Acceptances

Only a negligible amount of bankers acceptances was purchased by the System since the July 20 meeting and no purchases or allotments were made by the Federal Reserve Bank of New York.

Appended are statements showing the following:

- Exhibit "A" - Maturities of Holdings in System Account at the End of each Month, 1932-33, and October 4, 1933.
- "B" - Appreciation or Depreciation of United States Securities Held in System Special Investment Account as Represented by Book Values and Market Bid Prices as of Close of Business October 4, 1933.
- "C" - Statement Showing Earnings of all Federal Reserve Banks for the First Eight Months of 1933.
- "D" - Statement Showing Percentages used for Apportionment of New Purchases of United States Government Securities each Week Since July 20, 1933.
- "E" - Reserve Percentages of Federal Reserve Banks on April 26, July 26 and October 4, 1933.



MATURITIES OF HOLDINGS IN SYSTEM ACCOUNT  
END OF EACH MONTH - 1932-33

(In Millions of Dollars)

1932	Within Six Months	Per- cent	Within One Year	Per- cent	Within Two Years	Per- cent	3-5 Years Inc.	Per- cent	Call- able Bonds	Per- cent	Totals
Jan.	\$165	29	\$ 355	63	\$ 355	63	\$ -	-	\$212	37	\$ 567
Feb.	191	32	375	64	375	64	-	-	212	36	587
Mar.	299	44	475	69	475	69	-	-	212	31	687
Apr.	583	57	778	76	779	76	-	-	239	24	1,018
May	716	51	1,058	75	1,115	79	-	-	290	21	1,405
June	744	48	1,106	71	1,173	75	64	4	322	21	1,559
July	733	45	1,098	67	1,167	71	132	8	336	21	1,635
Aug.	622	38	1,029	63	1,194	73	110	6	336	21	1,640
Sept.	606	37	998	61	1,170	71	134	8	336	21	1,640
Oct.	651	40	1,051	64	1,229	75	75	4	336	21	1,640
Nov.	765	47	1,046	64	1,227	75	77	4	336	21	1,640
Dec.	779	48	1,021	62	1,203	73	101	6	336	21	1,640
<b>1933</b>											
Jan.	644	41	903	58	1,107	71	116	7	336	22	1,559
Feb.	577	36	856	55	1,090	67	203	12	336	21	1,629
Mar.	709	44	856	53	1,090	67	203	12	336	21	1,629
Apr.	570	35	725	45	958	59	335	20	336	21	1,629
May	543	32	823	49	962	57	384	23	336	20	1,682
June	656	37	879	49	1,117	62	335	19	336	19	1,788
July	659	36	903	50	1,143	63	341	19	336	18	1,820
Aug.	621	32	1,025	53	1,191	62	394	21	336	17	1,921
Sept.	706	34	1,102	53	1,278	62	452	22	336	16	2,066
Oct. 4	707	34	1,104	52	1,285	61	483	23	336	16	2,102



APPRECIATION OR DEPRECIATION OF U. S. SECURITIES HELD IN SYSTEM SPECIAL INVESTMENT ACCOUNT AS  
REPRESENTED BY BOOK VALUES AND MARKET BID PRICE AS OF CLOSE OF BUSINESS OCTOBER 4, 1933.

Issue		Maturity	Par Value	Approximate Book Value	Market Bid Price	APPRECIATION in Black DEPRECIATION in Red
U. S. Treas. Bills		Oct. 11, 1933	\$ 26,300,000	.301% Disc't	.20% Disc't	\$ 443.43
" " " "		" 18, 1933	20,000,000	.259% "	.20% "	432.04
" " " "		" 25, 1933	18,425,000	.273% "	.20% "	753.74
" " " "		Nov. 1, 1933	23,800,000	.254% "	.20% "	979.49
" " " "		" 8, 1933	29,980,000	.264% "	.20% "	1,814.98
" " " "		" 15, 1933	20,500,000	.166% "	.20% "	774.38
" " " "		" 22, 1933	33,171,000	.162% "	.20% "	1,660.35
" " " "		" 29, 1933	58,950,000	.110% "	.20% "	8,105.45
" " " "		Dec. 6, 1933	41,900,000	.093% "	.20% "	7,691.38
" " " "		" 20, 1933	17,200,000	.066% "	.20% "	4,834.02
" " " "		" 27, 1933	49,845,000	.056% "	.20% "	16,534.86
" " " "		Jan. 3, 1934	37,250,000	.077% "	.20% "	11,443.75
3/4% Cert. of Ind.		Dec. 15, 1933	73,254,000	100 2/32	100 8/32	153,378.67
4 1/4% " " "		" 15, 1933	99,520,000	100 9/32	100 27/32	575,202.02
3/4% " " "		Mar. 15, 1934	157,400,000	100 3/32	100 7/32	214,357.00
1/4% " " "		June 15, 1934	134,563,000	100 1/32	100	13,570.40
3 % Treas. Notes		May 2, 1934	108,387,000	100 24/32	101 20/32	973,472.66
2 1/8% " "		Aug. 1, 1934	153,602,000	100 14/32	101 18/32	1,728,506.30
3 % " "		June 15, 1935	106,748,700	101 4/32	103 12/32	2,431,323.45
1 5/8% " "		Aug. 1, 1935	72,053,300	100 6/32	101 3/32	661,834.99
2 7/8% " "		Apr. 15, 1936	159,604,500	101 1/32	102 13/32	2,201,587.41
3 1/4% " "		Aug. 1, 1936	46,092,000	102 16/32	103 15/32	420,136.38
2 3/4% " "		Dec. 15, 1936	88,693,000	100 28/32	102 12/32	1,345,698.20
% " "		Apr. 15, 1937	63,275,000	102 7/32	102 12/32	115,618.83
3 1/4% " "		Sept. 15, 1937	80,100,000	102.24/32	102 20/32	93,357.46
2 5/8% " "		Feb. 1, 1938	25,570,000	100 12/32	100 27/32	124,113.39
2 7/8% " "		June 15, 1938	19,750,000	101	101 7/32	43,658.95
3 1/2% 1st L/L Bds.		" 15, 1932-47	25,025,000	100 1/32	102 10/32	572,734.14
4 1/4% " " "		" 15, 1932-47	29,000,000	100 3/32	102 27/32	799,015.41
4 1/4% 4th " "		Oct. 15, 1933-38	281,591,000	100 17/32	103 6/32	7,522,418.48
TOTALS			\$2,102,149,500			\$19,729,707.91 Net Apprec.

NET PROFIT FOR YEAR 1933 HELD IN SUSPENSE ACCOUNT GENERAL CLOSE OF BUSINESS OCTOBER 4, 1933 - - - - - \$ 951,459.57



STATEMENT SHOWING EARNINGS OF ALL FEDERAL RESERVE BANKS  
FOR THE FIRST EIGHT MONTHS OF 1933

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	<u>Gross Earnings</u>	<u>Current Expenses and Net Deductions From Current Net Earnings</u>	<u>Available for Depreciation Allowances, Reserves and Surplus</u>
Boston	\$ 1,811,019	\$ 1,841,208	\$ 30,189 (a)
New York	11,943,695	6,960,869	4,982,826
Philadelphia	2,787,954	2,127,644	660,310
Cleveland	3,353,062	2,522,498	830,564
Richmond	1,100,805	1,281,448	180,643 (a)
Atlanta	1,180,408	1,081,862	98,546
Chicago	4,311,234	3,120,010	1,191,224
St. Louis	1,041,051	1,192,527	151,476 (a)
Minneapolis	1,023,995	869,615	154,380
Kansas City	1,161,526	1,320,872	159,346 (a)
Dallas	812,480	976,072	163,592 (a)
San Francisco	<u>2,834,756</u>	<u>2,330,768</u>	<u>503,988</u>
Totals	<u>\$33,361,985</u>	<u>\$25,625,393</u>	<u>\$7,736,592</u>

(a) deficit



## EXHIBIT "D"

STATEMENT SHOWING PERCENTAGES USED FOR APPORTIONMENT OF NEW PURCHASES OF UNITED STATES GOVERNMENT SECURITIES  
FOR SYSTEM ACCOUNT EACH WEEK SINCE JULY 20, 1933

Week Ended	July 26	Aug. 2	Aug. 9	Aug. 16	Aug. 23	Aug. 30	Sept. 6	Sept. 13	Sept. 20	Sept. 27	Oct. 4
Boston	13 %	11 1/4%	11 1/4%	12 %	11 1/2%	11 1/4%	11 %	11 %	11 %	9 1/4%	9 3/4%
New York	9 1/2%	11 %	10 1/4%	10 3/4%	12 1/4%	16 %	15 1/4%	15 1/4%	15 1/2%	21 1/4%	19 3/4%
Philadelphia	5 %	4 1/4%	4 1/2%	4 1/4%	4 3/4%	4 3/4%	4 3/4%	5 1/4%	4 3/4%	5 1/4%	5 %
Cleveland	6 3/4%	8 1/4%	8 %	7 1/4%	6 3/4%	6 %	6 1/4%	5 3/4%	6 %	6 %	6 3/4%
Richmond	5 1/2%	5 1/4%	5 %	5 %	5 1/4%	4 3/4%	5 %	5 %	4 1/2%	4 1/4%	4 %
Atlanta	3 1/2%	3 1/2%	3 1/2%	3 3/4%	4 %	3 3/4%	3 3/4%	3 1/2%	3 %	3 1/4%	3 1/4%
Chicago	37 1/4%	38 %	38 3/4%	37 3/4%	38 1/4%	36 %	36 %	36 1/4%	36 %	32 1/2%	32 3/4%
St. Louis	5 1/4%	4 3/4%	4 3/4%	5 %	4 1/4%	4 1/2%	4 %	4 %	4 1/4%	4 %	4 1/2%
Minneapolis	1 3/4%	1 3/4%	1 3/4%	1 3/4%	1 3/4%	1 1/2%	1 3/4%	2 %	1 3/4%	2 %	1 3/4%
Kansas City	4 3/4%	5 %	5 %	5 %	4 3/4%	4 1/4%	4 1/2%	4 1/4%	4 1/4%	4 %	4 %
Dallas	1/4%	1/4%	1/2%	3/4%	3/4%	3/4%	3/4%	3/4%	1 1/4%	1 1/4%	1 3/4%
San Francisco	7 1/2%	6 3/4%	6 3/4%	6 3/4%	5 3/4%	6 1/2%	7 %	7 %	7 3/4%	7 %	6 3/4%
Totals	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

(Above allotment percentages based on the amount of reserves of each Federal Reserve Bank in excess of the amount required for a reserve ratio of 55% up to Sept. 20 and a 50% reserve ratio subsequent thereto.)



RESERVE PERCENTAGES OF FEDERAL RESERVE BANKS  
ON APRIL 26, JULY 26 AND OCTOBER 4, 1933.

	<u>April 26</u>	<u>July 26</u>	<u>October 4</u>
Boston	65.7%	77.3%	72.8%
New York	59.4%	60.0%	59.3%
Philadelphia	59.0%	63.5%	63.2%
Cleveland	55.9%	67.8%	64.4%
Richmond	72.9%	72.0%	68.7%
Atlanta	58.2%	70.0%	68.4%
Chicago	75.1%	78.4%	72.4%
St. Louis	67.8%	71.2%	67.4%
Minneapolis	51.3%	63.6%	62.6%
Kansas City	61.9%	71.7%	68.1%
Dallas	44.0%	57.2%	70.1%
San Francisco	52.6%	68.1%	66.1%
System	62.7%	68.4%	65.9%



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October 9, 1933  
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BUSINESS AND CREDIT DEVELOPMENTS

Summary

For the past two months there has been a reaction in industry from the exceptionally rapid expansion of activity during the spring and early summer months. Notwithstanding this reaction, business was in considerably larger volume in August and September than in March. Employment and incomes of wage earners increased materially, not only in the earlier months when production in basic industries was expanding but also in August and early September. There is evidence that a gradual improvement in conditions is under way throughout the world.

At the time of the banking holiday industrial activity was close to the lowest level of the depression. Almost immediately after the reopening of the banks there was an increase in activity. The advance was accelerated by the prospects of increased costs and price advances as a result of processing taxes and code provisions and also by anticipation of inflation. In particular, industries making semi-finished, storable goods were influenced by these prospects; some industries, notably textiles and shoes, advanced production rates in the early summer to the highest levels on record.

The decline in industrial activity during the past two months has come, in large measure, in those industries in which expansion had previously been most rapid. It has also been marked in industries in which processing taxes or codes have recently become effective.

Prices of commodities after advancing rapidly last spring and early

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summer have been fairly stable, on the average, since July. This stability has reflected the net result of declines in prices of world commodities, which had advanced with the earlier decline in the exchange value of the dollar, offset by a rise in prices of finished goods. As the result of higher crop prices the income of farmers for the year is expected to be more than \$1,000,000,000 larger than last year, though still below the level of other recent years.

Volume of bank credit has shown little change since mid-summer, and the rate at which the outstanding credit was being used, as reflected in rapidity of turnover of deposits, has recently declined. Return of currency from hoards has continued at a moderate rate, the amount of currency in hoards being estimated at about \$1,500,000,000 at the present time, compared with more than \$3,000,000,000 at the peak last spring.

Purchases of United States Government securities by the reserve banks this year have totaled \$460,000,000, and have been reflected in a reduction of reserve bank holdings of discounts and acceptances to a low level and in an increase of excess reserves of member banks to about \$700,000,000.

Rates for money at short-term continue at exceptionally low levels. Capital flotations are small and there is little activity in the mortgage market.

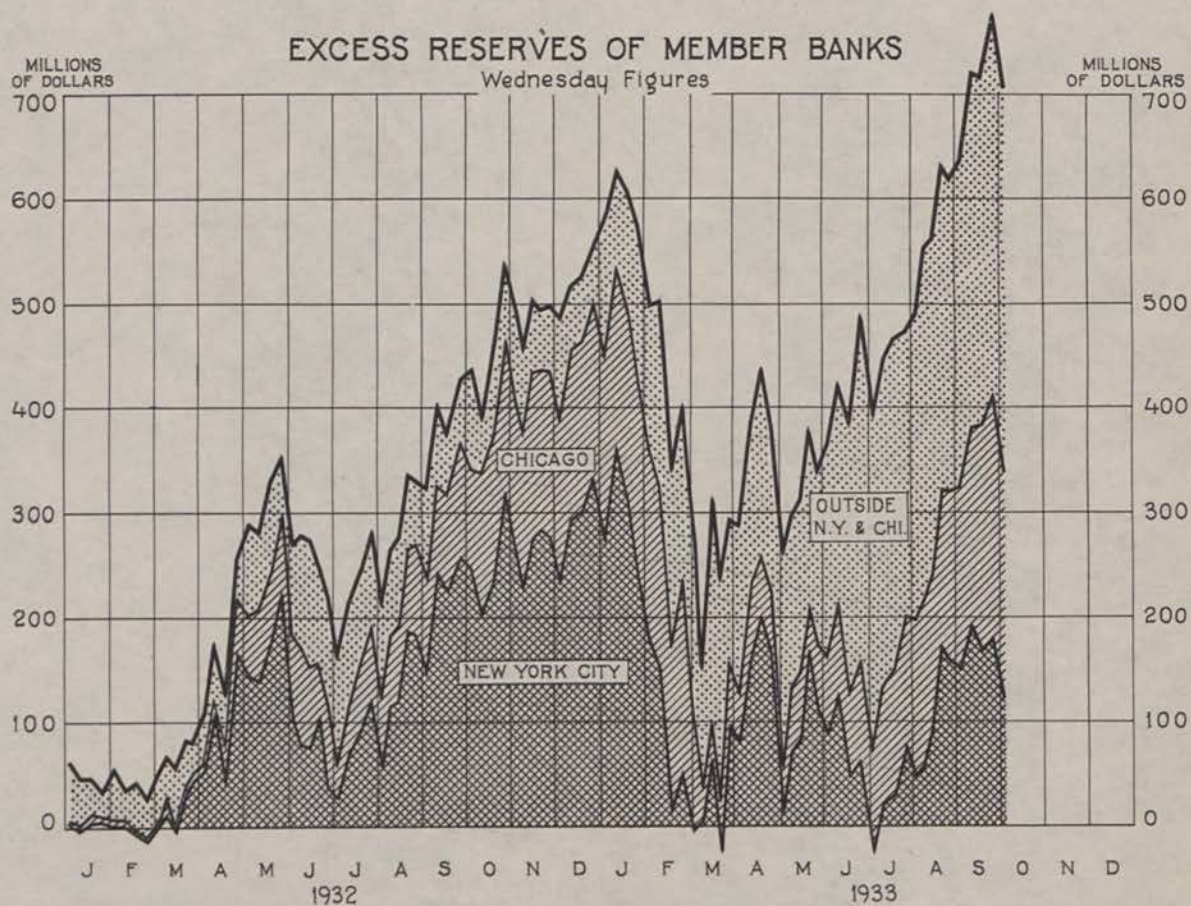
#### Excess reserves

Excess reserves of member banks are shown in the following chart. Recent developments have been that, notwithstanding the prohibition of interest payments on demand deposits, considerable accumulation of bankers' balances resulting in excess reserves has occurred since last July in New York City. Seasonal flow of funds to that city as crops are marketed together with the fact



that banks find no profitable liquid use for short-time funds at home appear to account for this development. Excess reserves in Chicago have also increased. About one-half of the excess reserves of all member banks, however, is still outside of the two financial centers, compared with one-sixth a year ago.







Industrial activity

The industrial record of the past seven months is summarized in the following table:

## BUSINESS DEVELOPMENTS IN BASIC INDUSTRIES, 1933

	Mar.	July	Sept.	Per cent change	
				Mar.- July	Mar.- Sept.
(Seasonally adjusted indexes; 1923-1925=100)					
Industrial production, total	60	100	p85	+ 67	+ 42
Manufactures	56	101	p85	+ 80	+ 52
Mines	81	90	p87	+ 11	+ 7
Factory employment <u>1/</u>	57	69	p76	+ 21	+ 33
Factory payrolls <u>1/</u>	37	50	p57	+ 35	+ 54
Construction contracts awarded	14	21	p28	+ 50	+100
Railroad freight-car loadings	50	65	60	+ 30	+ 20
Merchandise l.c.l.	62	70	68	+ 13	+ 10

1/ Without seasonal adjustment.

p-Preliminary.

Production in basic industries, as measured by the Board's seasonally adjusted index of industrial production, advanced from 60 per cent of the 1923-1925 average in March to 100 per cent in July, when industrial activity was at its height, and in August and September declined by about 15 per cent, according to preliminary reports. The industries represented in this index produce chiefly semi-finished storable goods--such as cotton yarns, sugar, steel ingots, etc.--that are used in making other products, and have a rate of output more sensitive to industrial changes than that of finished goods.

Advance in industrial activity from March to July brought with it increased employment and earnings, particularly in manufacturing, although this advance was somewhat slower than in output, as is normally the case in the early stages



of recovery. By July factory employment had increased by 21 per cent and payrolls by 35 per cent, but they were at much lower levels relative to 1923-1925 than the volume of output. In August and September there was a further growth in earnings and in employment, notwithstanding the concurrent decline in production, the continued growth in employment and payrolls being due in part to the operation of industrial codes. By September it is estimated that factory workers' earnings were more than half again as large as in March and the number employed had increased by one-third.

The construction industry, as a whole, showed some increase in activity during the period; in August and September contracts for public works were an important factor in the increase of construction contracts.

The added volume of industrial activity was also reflected in heavier railroad traffic, which increased by 30 per cent from March to July and which in August and September was about 10 per cent lower than at its peak, after allowance for seasonal changes.

#### Output of manufactures

The increase in output of basic manufactures by 80 per cent from March to July, according to the Federal Reserve Board's seasonally adjusted index, is the most rapid increase on record; in August there was a decline of about 9 per cent, and in September, for which reports are still incomplete, a further reduction of 8 per cent.

During the month just past, output of iron and steel, automobiles, silk, and other textiles was further reduced and there was also a marked decline in production of lumber and of bituminous coal, while anthracite mines were producing on a considerably larger scale than in August. Flour production con-



tinued at a low level, although the mills were somewhat more active than in August.

Reduction in activity during the past two months has been greatest in those industries in which expansion had been most rapid from March to July. Many factors are responsible for this development, among them declining demand from the individual consumer in some lines, and in others reduction in buying<sup>by</sup>/distributors pending more definite establishment of new price scales. The initiation of codes and processing taxes has also had the result of stimulating production in advance of the increase in costs, particularly in production of storable goods and semi-finished materials, thus making possible a slowing-up of output as soon as regulations became effective, pending the adjustment of the industry and consumers to new levels of costs and prices.

For a number of industries there was a marked decline in output in the month in which a code or processing tax became effective or in the month immediately following. This is true of iron and steel, wool, rayon, flour, and lumber. In a few of these industries for which weekly figures are available the effect can be traced. For other industries, such as shoes, silk, automobiles, etc., output had begun to slacken, after a pronounced rise, before the codes became effective. The effect of impending regulations is also illustrated by continued large output of sugar and anthracite coal.

#### Durable and nondurable goods

After six months of recovery, the heavy industries are still operating at a relatively low rate compared with the rate of operation in the industries which manufacture principally consumers' goods. This is illustrated by the chart which shows the relative importance of the manufacturing industries pro-

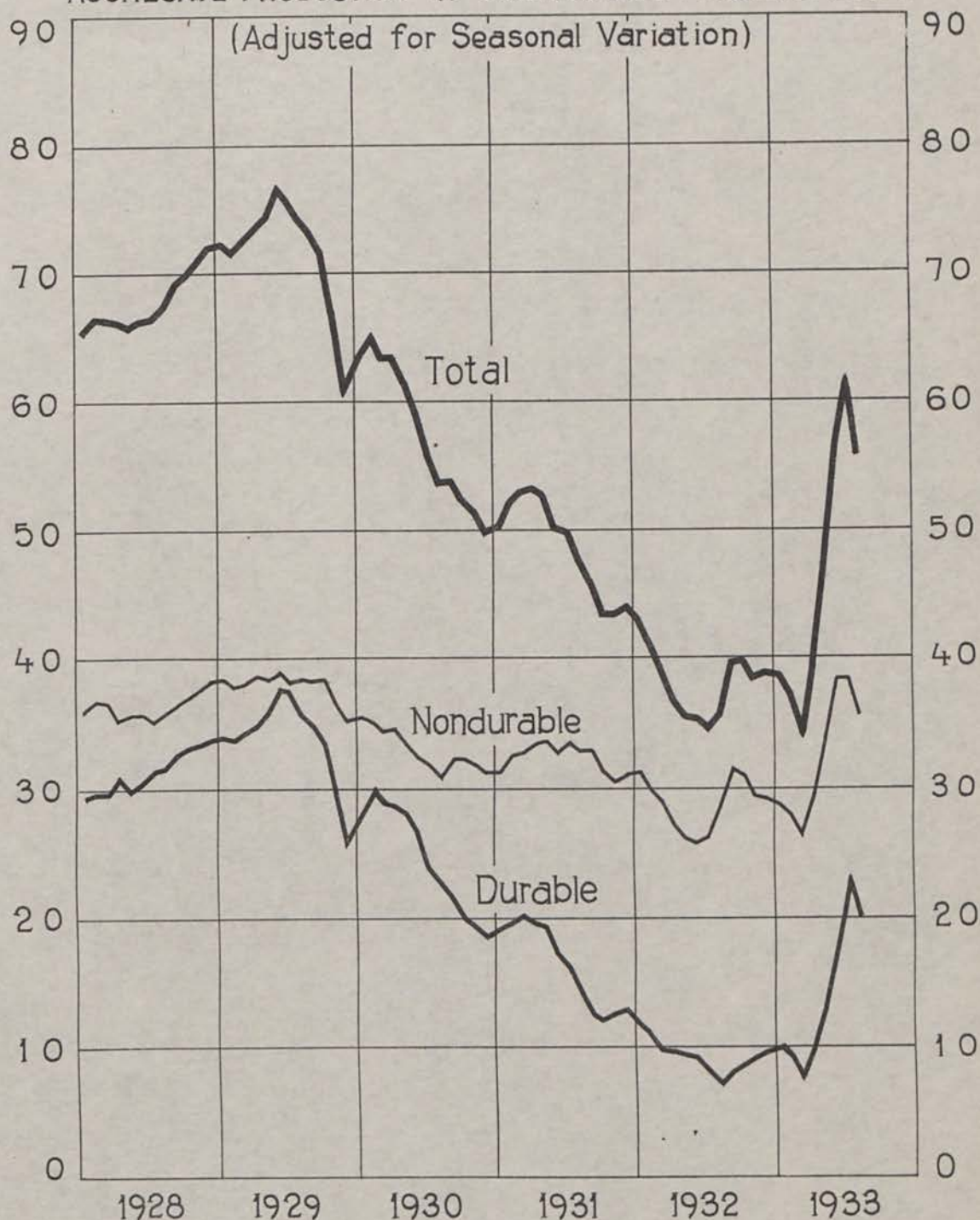


ducing durable and nondurable goods represented in the Board's index of manufacturing production, which makes allowance for the usual seasonal variations. Output of the steel, automobiles, and construction materials industries was nearly as large in 1928-29 as that of industries producing nondurable goods, such as food, textiles, shoes, and cigarettes. By March of 1933 production in the heavy industries had declined by 75 per cent as compared with a reduction of 30 per cent in the group of consumers' goods. Both shared in the expansion of the next four months, but even in the months of greatest activity, when the consumers' goods industries were at 1929 levels, the heavy industries were producing only about two-thirds of their average monthly output in 1929. The advance in steel production from 15 1/2 per cent of capacity in March to 59 in July had been accomplished principally by increased orders from the automobile industry, the tinplate mills, and from miscellaneous sources, while there was little demand from the construction industry or from the railroads. The reduction of output to 41 per cent of capacity in September has been attributed by trade reports to the fact that the high rate of activity prior to August represented in part the accumulation of inventories in anticipation of the adoption of the steel code.



# MANUFACTURES - DURABLE AND NONDURABLE

AGGREGATE PRODUCTION IN COMPARABLE PHYSICAL UNITS



"Durable" includes steel, autos, lumber, vessels, locomotives, nonferrous metals, cement, polished plate glass, and coke.

"Nondurable" includes textiles, leather products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.



Construction

In recent months the value of construction contracts awarded has increased from the extreme low level prevailing in the spring to about the level of a year ago. There has been some increase in building material prices but the growth in contracts has reflected chiefly the larger volume of work undertaken.

The accompanying chart shows residential and other contracts separately; the data plotted are three-month moving averages adjusted for usual seasonal variations and the last figure is partly estimated. The chart indicates that the recent growth has been largely in non-residential work. In August there were substantial increases in contracts for highways and waterworks, and in September total contracts for public works and utilities continued at the August level. Currently factory construction is also above the low level of the spring. The increase in residential building shown on the chart has been in one-family houses built for owner occupancy, while other types have shown little change from previous extreme low levels. Vacancies in apartments have continued unusually large and rents have declined further since the beginning of the year. Delinquencies on mortgage payments have been large and new mortgage money has generally not been available.

The Public Works Administration has allotted \$1,669,000,000 of the \$3,300,000,000 appropriated. Allotments amounting to \$1,480,000,000 have been made to Federal agencies, including \$400,000,000 for roads; \$238,000,000 for Navy building (not usually included as "construction"); \$166,000,000 for

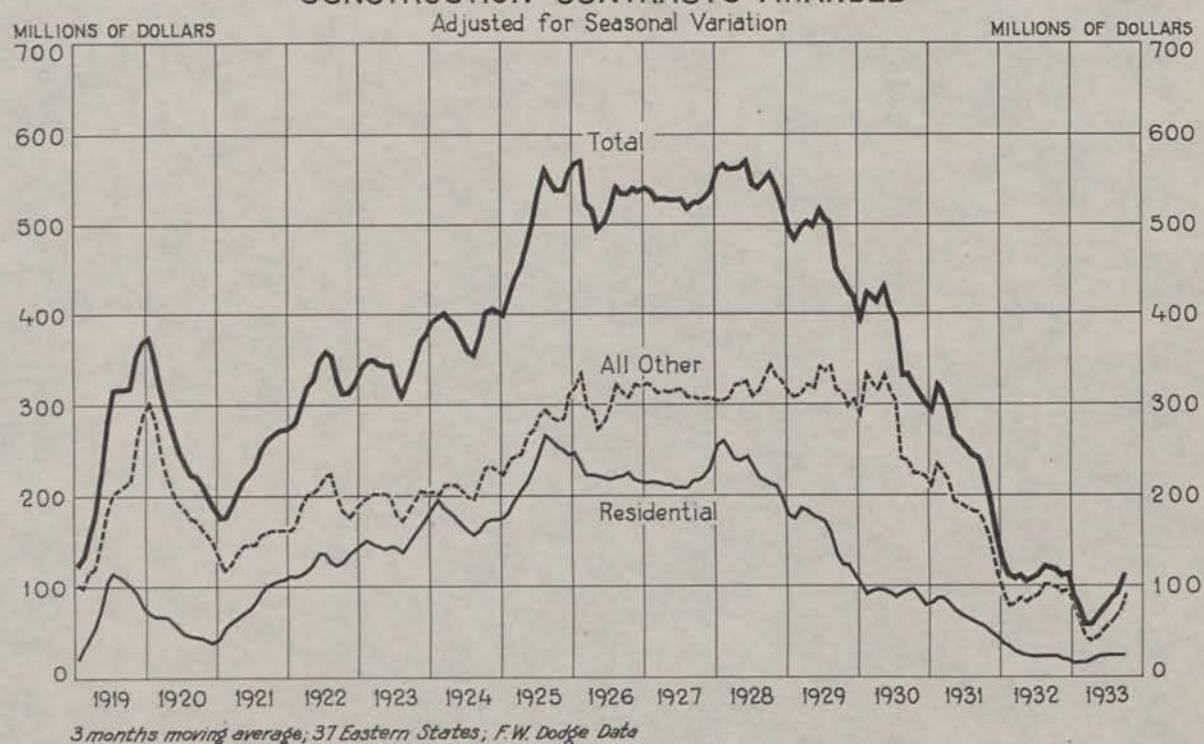


reclamation projects; \$121,000,000 for rivers and harbors; \$100,000,000 for the Farm Credit Administration; \$71,000,000 for the Civilian Conservation Corps; \$55,000,000 for Army housing; \$50,000,000 for the Tennessee Valley project; \$46,000,000 for flood control; \$25,000,000 for subsistence homesteads; and \$25,000,000 for public buildings. Non-federal projects have totaled \$190,000,000, of which \$44,000,000 is for the Triborough Bridge, \$38,000,000 for the Mid-town Hudson Tunnel, \$41,000,000 for low cost housing, and \$17,000,000 for waterworks.

Federal expenditure for public works during the fiscal year 1933 amounted to about \$500,000,000; actual expenditures this year cannot be accurately estimated but will be smaller than allotments to Federal agencies by a considerable amount, for the reason that some of the allotments, such as that to the Farm Credit Administration, are for non-construction purposes; and also because of the fact that after allotments are made final plans must be approved before funds are advanced, as in the case of housing projects. Work begun during the year on many large projects, such as the naval construction, reclamation, bridges, and tunnels, will not be completed during the year. Final plans for certain highways and other items have been approved and work is now being done on projects totalling \$400,000,000.



## CONSTRUCTION CONTRACTS AWARDED





Employment and income of industrial workers

With the rapid expansion of production from March to July, factories added more than 1,000,000 men to their payrolls and about 70,000 men were taken on by the railroads, while employment in public utilities was slightly reduced, and there was some reduction in the number of workers on the payroll of mines. In August and September there were further increases in factory employment, notwithstanding reduced operations of factories, and in August some further additions to employment on the railroads. This is shown in the following table, which gives estimated number employed and estimated monthly earnings in recent months.

## EMPLOYMENT AND INCOME OF INDUSTRIAL WAGE EARNERS--1933

	Factories	Mines	Public utilities	Railroads	Total
EMPLOYMENT (In thousands)					
March	4,932	546	825	907	7,210
July	6,016	532	800	977	8,325
August	6,421	424	801	p 1,003	8,649
September	p 6,625	...	...	...	...
Change March to August	+1,489	-122	-24	+96	+1,439
MONTHLY INCOME (Estimated in millions of dollars)					
March	331	37	96	105	569
July	451	38	92	116	697
August	505	45	92	119	761
September	p 514	...	...	...	...
Change March to August	+174	+8	-4	+14	+192
p Preliminary					



Between March and August the four industries listed in the table had taken on more than 1,400,000 employees, and it is estimated that another 800,000 were reemployed in trade, the service industries, and agriculture, in addition to the 300,000 men enlisted in the Civilian Conservation Corps. With a gain in factory employment of about 200,000 in September, it appears that about 3,000,000 workers have been reemployed in six months.

Earnings have also increased substantially since March--by about \$200,000,000 a month for the four industries listed above. The present level of income, however, is only slightly more than half the amount paid out in wages in 1929.

The continued increase in number of workers and in their earnings in August and September, while production in some basic industries was declining, is partly statistical, reflecting differences in report dates. It is chiefly, however, a reflection of the increase in wage rates, the decline in hours and the spreading of work. The Bureau of Labor Statistics reported an increase in average hourly earnings of factory workers from 42.7 cents an hour in early July to 48.5 cents in early August, while the average hours worked decreased from 42.3 to 38.6.

#### Income of farmers

Farm income in 1933, including products consumed on the farm, is estimated by the Department of Agriculture at about \$6,360,000,000, as compared with \$5,100,000,000 last year, \$6,900,000,000 in 1931, and \$11,000,000,000 to \$12,000,000,000 in the years 1924-1929. The increase over a year ago reflects in part the payment of \$260,000,000 to farmers by the Federal Government in connection with the production control programs of the Agricultural Adjustment



Administration for cotton, wheat, tobacco, and hogs; but the principal factor is the rise in prices at the farm. Prices of farm products advanced rapidly from March until July, and although they have declined somewhat since that time they continue above last season. Crops are generally smaller than last year and most other recent years. The cotton crop is estimated at about 12,400,000 bales, as compared with 13,000,000 last year; the wheat harvest is about 500,000,000 bushels, 350,000,000 bushels less than the five-year average; and feed crops are also unusually small. Stocks of these commodities, large at the beginning of this season, are likely to be reduced considerably during this year, and production control programs are aimed to restrict future output. The volume of livestock marketings has continued at about the level of last season, and with prices slightly lower income from this source has been somewhat smaller than last season. Currently, prices paid by farmers for goods purchased are slightly higher than a year ago; in the earlier months of the year, however, they were considerably lower than last season.

#### Retail trade

The rate at which goods have been going into consumers' hands since March is not known precisely. Sales at department stores showed a marked gain, increasing from 57 per cent of the 1923-1925 average in March to 77 per cent in August, after allowance for seasonal changes in buying. This compares with 65 per cent of the 1923-1925 average in August 1932. These figures represent dollar values and reflect rising prices as well as a larger volume of purchases. Prices have advanced considerably during the past two months. Preliminary reports for September indicate that sales increased by much less than is usual at



this time of year, partly because of unseasonably warm weather, and also, according to trade reports, because of buyers' resistance to higher prices. Sales of chain stores continue to be in considerably larger volume than a year ago.

#### Growth of bank deposits

From March to June deposits at banks increased substantially and this growth continued at a slower rate from July to September.

Total deposits of all banks other than mutual savings banks in the United States were about \$35,500,000,000 on December 31, 1932. At the close of the banking holiday March 13-15, the deposits of open banks were about \$26,500,000,000, a decline of about \$9,000,000,000 from the beginning of the year. Since the holiday, deposits of licensed banks other than mutual savings banks have increased by about \$5,000,000,000, or 20 per cent, to about \$31,500,000,000, reflecting chiefly the licensing of additional banks, liquidation or reorganization of banks in the hands of receivers, and organization of new banks; the purchase of United States securities and acceptances by the banks; and the return of currency and gold to the banks from hoards. The important factors in the growth of deposits are summarized in the following table:

#### FACTORS AFFECTING THE VOLUME OF DEPOSITS OF LICENSED BANKS IN THE UNITED STATES BETWEEN MARCH 15 AND OCTOBER 4, 1933 (In billions of dollars)

Return of currency and gold to banks	1.1
Growth in bank loans and investments	1.1
Banks licensed, new banks organized, etc.	2.0
Growth of bankers' balances	<u>1.0</u>
Total	5.2



The major part of the growth in deposits occurred between March and July, deposits showing little growth since that month.

#### Velocity of deposits

Growth in bank deposits since last spring has been accompanied by a growth in the volume of check payments and in the rate of deposit turnover. From March to July the volume of check payments increased by 40 per cent and the rate of turnover or velocity of deposits at reporting member banks by 30 per cent. From July to September the volume of check payments in the United States declined by 25 per cent and the velocity of deposits also by 25 per cent. Changes in the velocity of bank deposits have reflected quite closely changes in the volume of business activity, <sup>the increase in activity</sup> during the spring months having been financed to a greater extent by a more active use of existing deposits than by a growth in the volume of deposits.

#### Growth of bank loans and investments

Loans and investments of banks in the United States are estimated to have increased by about \$1,100,000,000 between March 15 and the end of September reflecting chiefly the purchase of United States securities and of acceptances by the banks and an increase in loans to brokers and dealers in securities in New York by New York City member banks. Holdings of other securities and loans to customers have been reduced. The increase occurred for the most part between March and June; since then there has been relatively little change.



The data are summarized in the following table:

ESTIMATED CHANGES IN LOANS AND INVESTMENTS OF BANKS IN THE  
UNITED STATES, EXCLUSIVE OF MUTUAL SAVINGS BANKS,  
MARCH 15 TO SEPTEMBER 27, 1932  
(Figures in millions of dollars)

Increase in holdings of United States securities	1,025
Increase in holdings of acceptances and commercial paper	450
Increase in loans to brokers	400
Reduction in loans to customers	600
Reduction in holdings of other securities	150
 Total increase in loans and investments	 1,125

Movement of bankers' balances

Between March 15 and June 15 the growth in bank deposits was accompanied by an accumulation of bankers' balances in the important financial centers, chiefly in New York City. At reporting member banks in New York City bankers' balances increased by \$700,000,000 and at other reporting member banks they increased by \$600,000,000. Following enactment of the Banking Act of 1933 to the middle of August withdrawal of bankers' balances from the reporting member banks in New York City amounted to \$400,000,000 and from the reporting member banks elsewhere to \$200,000,000. Between the middle of August and the end of September bankers' balances have increased again by \$100,000,000 reflecting in part proceeds from the marketing of farm crops.

Non-licensed and closed banks

At the end of September there were more than \$4,500,000,000 of deposits in banks still in the hands of the supervising authorities. The distribution of their deposits is shown in the following table:



DEPOSITS IN NON-LICENSED AND CLOSED BANKS--SEPTEMBER 27, 1933  
(Amounts in millions of dollars)

Non-licensed banks in hands of conservators, etc.:		
National banks		730
State member banks		158
Nonmember banks		882
Banks in hands of receivers:		
National banks		818
State banks	2,000 -	2,500
Total	4,500 -	5,000

The Comptroller of the Currency has announced approval of reorganization plans for 375 national banks with \$400,000,000 of deposits.

Currency

On October 4, 1933, the volume of money in circulation was at a level of \$5,652,000,000, indicating a decline of \$1,929,000,000 from the all-time peak of \$7,581,000,000 reached on March 13, 1933, but was still \$1,200,000,000 above the average low level of the present depression reached in the autumn of 1930. About one-half of the decrease from March 13 reflected the return of currency from the public and the other half the return of vault cash from banks. Money in circulation declined rapidly after the reopening of the banks on March 13-15, and continued to decline from week to week until September, notwithstanding the increase in the demand for currency arising from enlargement of payrolls and increase in the volume of retail trade. This indicates a continued return of money from hoards as banking facilities were reestablished.



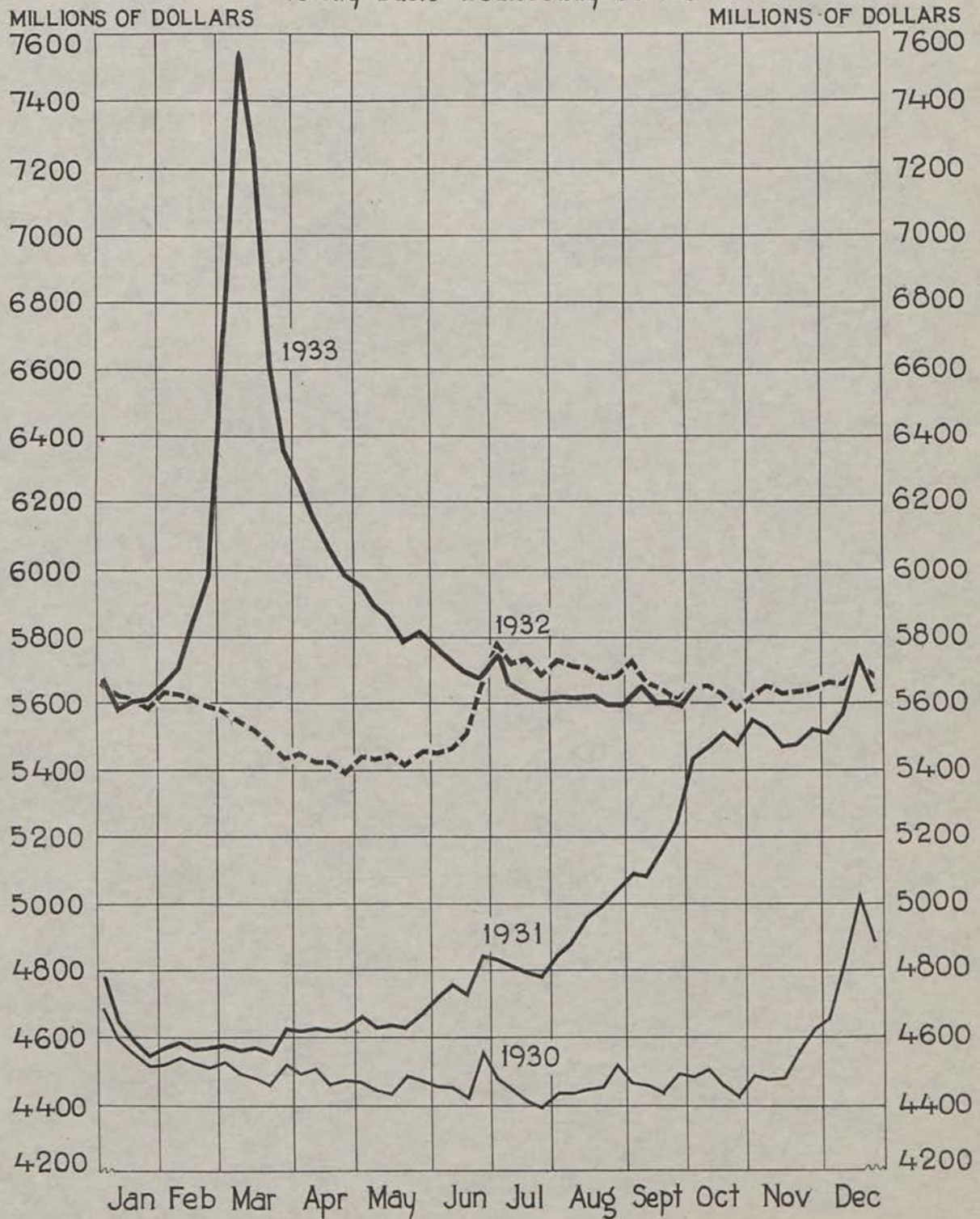
It is now estimated that of the currency withdrawn during the current depression about \$1,500,000,000 is still in private hoards, or about one-half as much as at the peak of the hoarding movement in March, and probably less than at any time since the spring of 1931.

The chart shows the volume of money in circulation for several years past. Recent increases in the volume of money in circulation are seasonal in character.



# MONEY IN CIRCULATION

Weekly Basis: Wednesday Series





Gold in the hands of the public

Gold coin outside of the reserve banks and the Treasury on October 4 was \$312,000,000, less than at any other time in 50 years, and the amount of gold certificates in circulation was \$231,000,000, less than at any other time since 1922.

Of these amounts probably not less than \$250,000,000 of the gold coin and \$50,000,000 of the gold certificates have been lost, destroyed, or exported without a record. Gold and gold certificates in the hands of the public, therefore, aggregate probably not more than \$250,000,000, the smallest amount in many years.

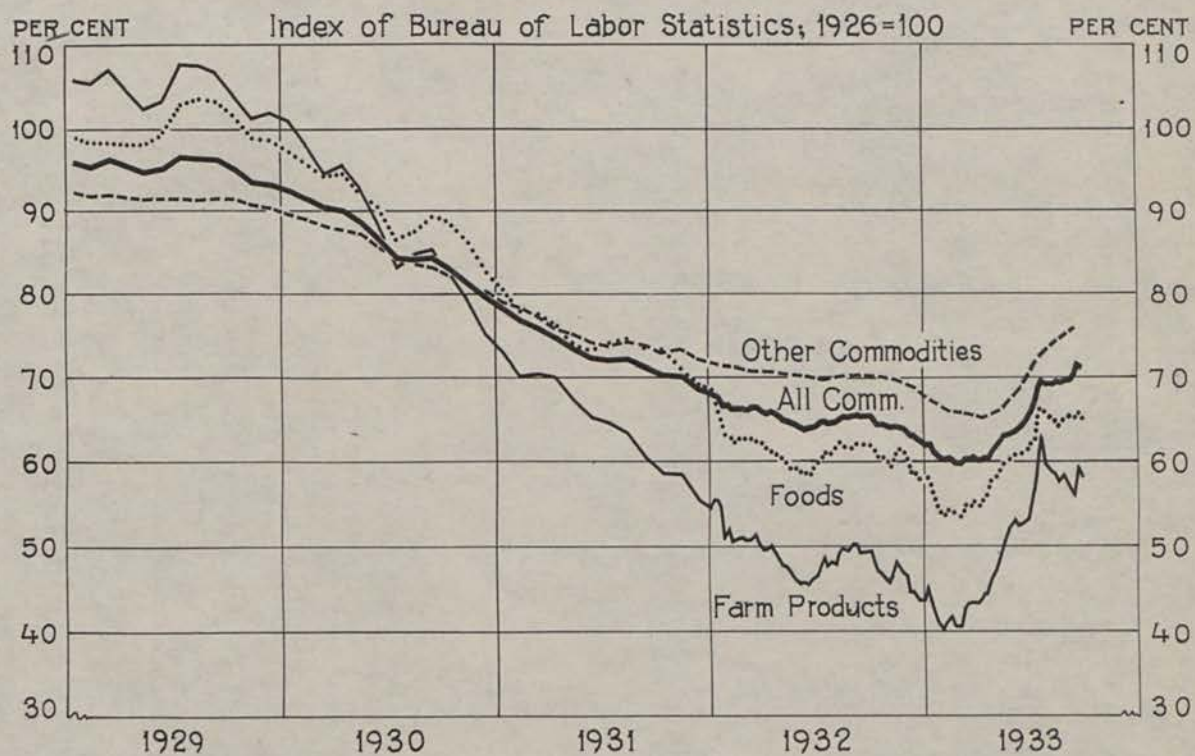
In other countries there is evidence that the hoarding of gold was checked at the beginning of July. Monetary gold in Europe outside of reported central bank holdings, after increasing by \$500,000,000 during the first half of the year, decreased somewhat in the third quarter.

Commodity prices

The general level of commodity prices, at wholesale, after a rapid rise last spring and early in the summer, has been at a relatively stable level. This stability of the general average of prices has been the resultant of declines in prices of those commodities traded in on organized exchanges that had shown the most rapid advances last spring, offset by advances in other commodities, particularly finished goods. The chart shows the course of prices of all commodities combined, of farm products, foods, and other commodities.



## WHOLESALE PRICES





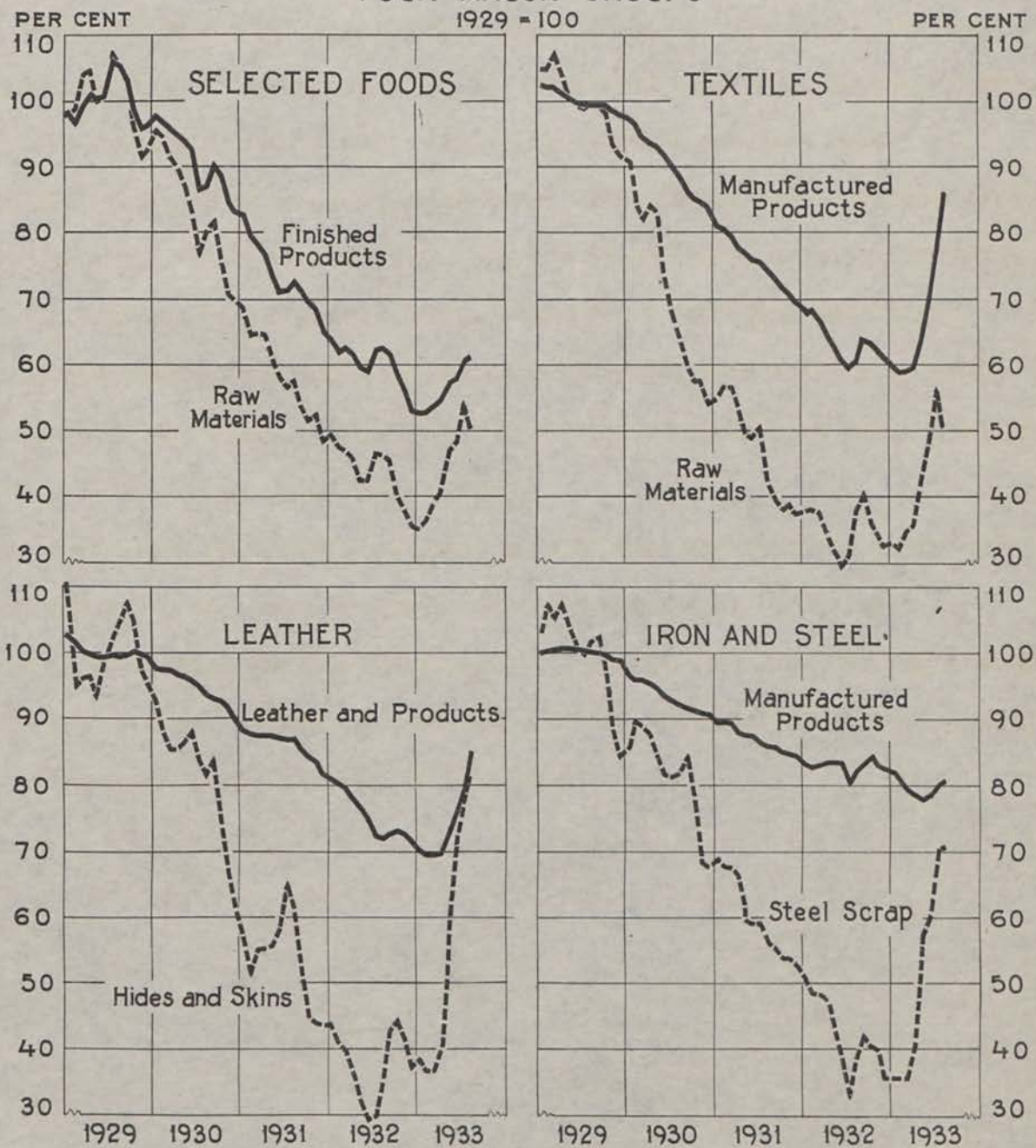
Price advances in farm products and other staple commodities in the spring reflected largely the depreciation of the dollar on the exchanges and speculative anticipation of further depreciation. In mid-summer prices of world commodities declined and ceased to follow closely the movement of dollar exchange. In the middle of September further rapid depreciation of the dollar was once more accompanied by a moderate rise in the prices of world commodities. During the past three weeks prices of these commodities have again been weak.

Commodities that do not enter into world trade showed little advance last spring, but began to rise early in the summer and continued upward after July, chiefly in response to processing taxes, restrictive measures, and codes. Among the commodities most affected are pork products, iron and steel, petroleum, and bituminous coal. Prices of flour and cotton textiles after a rapid rise early in the summer have since receded.

Classification of commodities into raw materials and finished goods shown for four groups in the chart indicates that raw materials, which had the greatest price declines during the depression, also showed the most rapid price advances last spring. Since mid-summer, however, raw materials have declined, while finished products continued to increase.



# WHOLESALE PRICE MOVEMENTS FOUR MAJOR GROUPS





The table below shows last spring's low points, July high points, and the latest level for price indexes comprising different groups of commodities. The table brings out the difference between the course of prices of sensitive world commodities and of other commodities. It also shows that since July prices of products sold by farmers have declined, while prices of the goods they buy have advanced. Retail prices and the cost of living in general have advanced continuously.

#### COMMODITY PRICE CHANGES DURING 1933

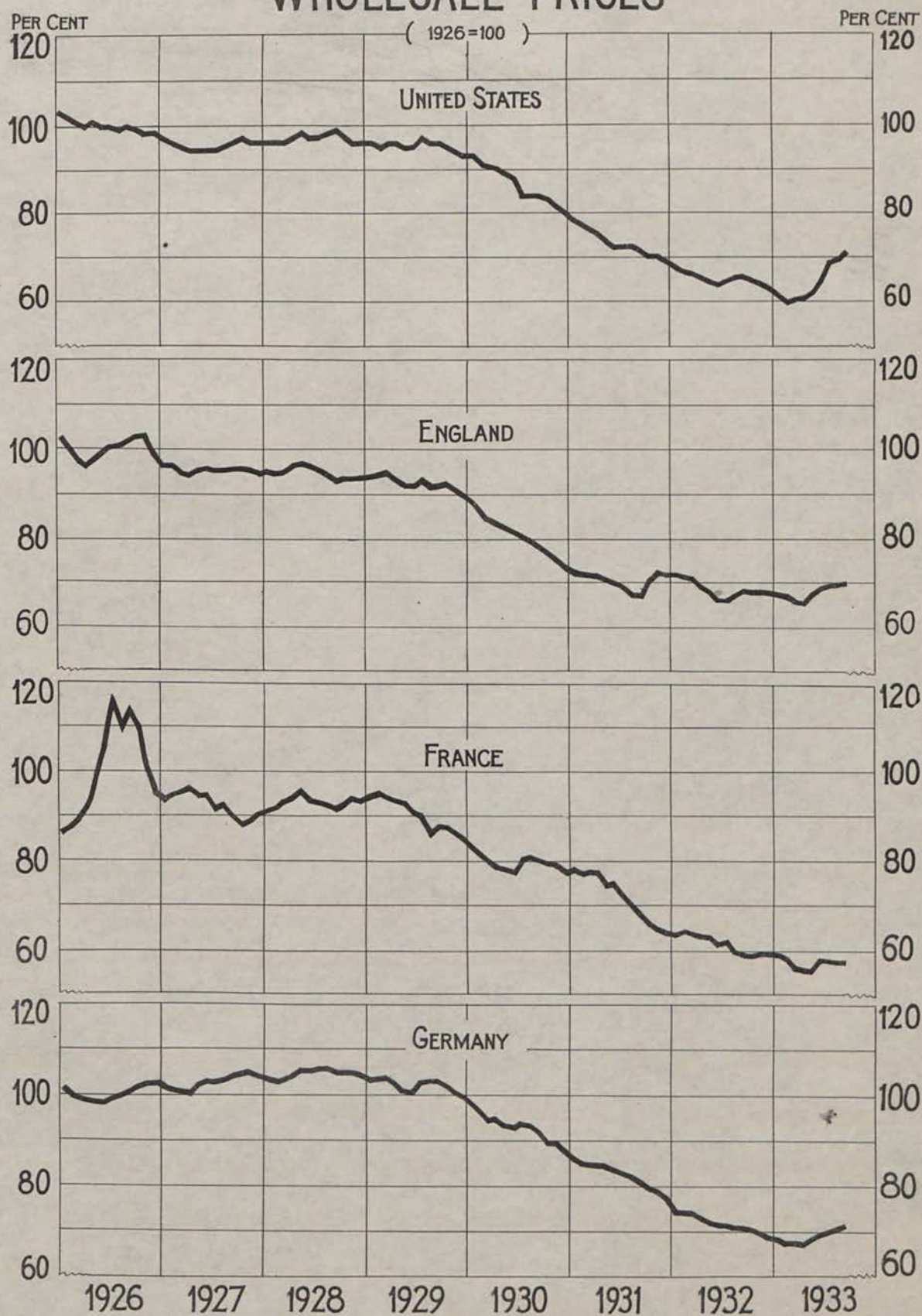
	Lowest in spring	Highest in July	Latest
<u>Wholesale prices</u>			
784 commodities, U.S.B.L.S. (weekly; 1926=100)	59.6	69.7	71.1
15 staple commodities, Moody's (daily; 12/31/31 = 100)	78.7	148.9	128.7
<u>Farm prices, U.S.B.A.E.</u>			
(weekly; 1910-1914=100)			
Received by farmers	49	76	71*
Paid by farmers	100	107	116*
<u>Retail prices</u>			
Food, U.S.B.L.S. (semi-monthly; 1913=100)	90.4	104.8	107.0
Cost of living, N.I.C.B. (monthly; 1923=100)	71.5	75.2	76.9
Department store prices, Fairchild (first of month; January, 1931=100)	69.4	76.1	82.5

\* Confidential.

Comparison of prices in this country, England, and France, presented in the chart, brings out the fact that the principal factor in price advances this year has been the relative decline in the exchange value of a country's currency. Our prices have advanced most, and British prices next, while those in France showed relatively little change.



# WHOLESALE PRICES

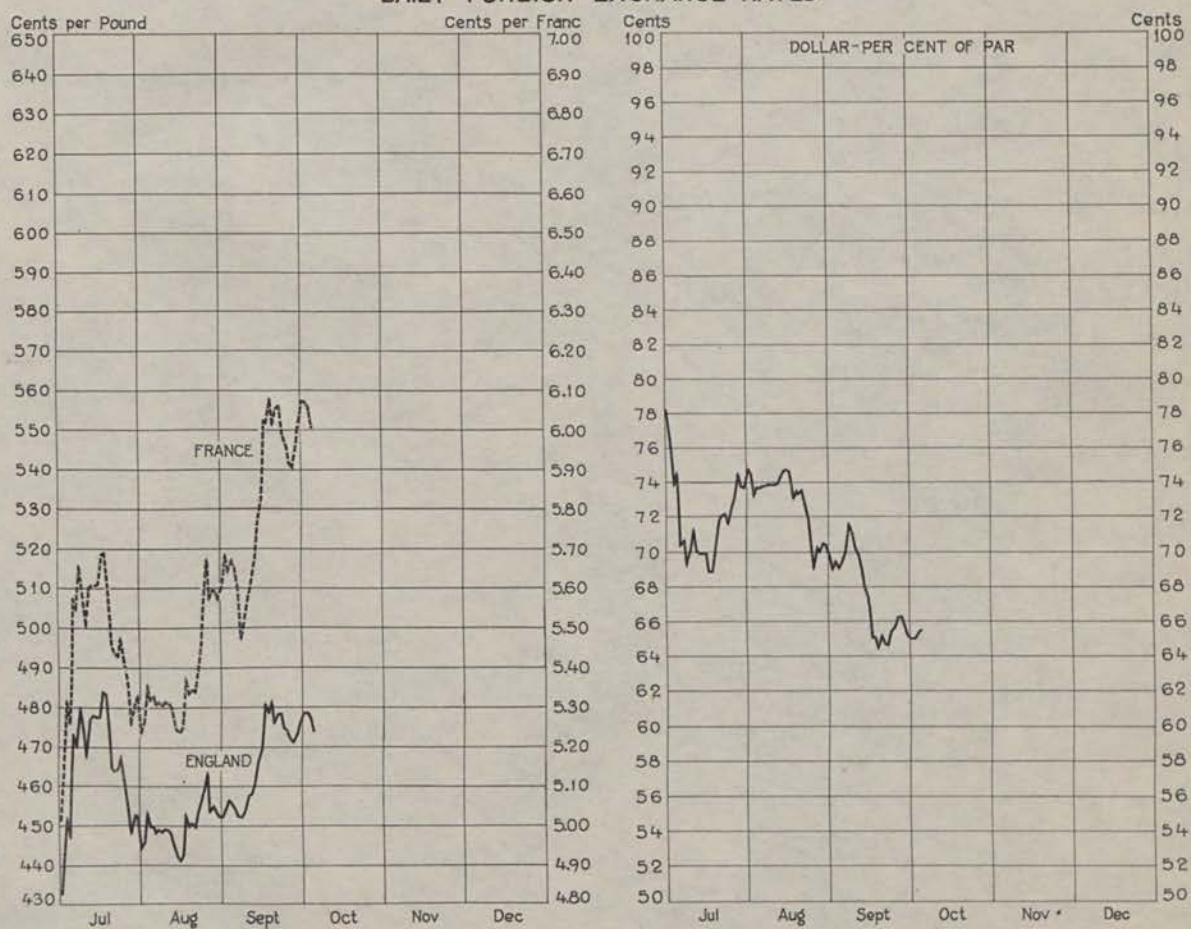




The chart shows daily quotations of the pound and the French franc, and the position of the dollar in relation to its gold parity. It brings out the fact that until the latter part of August the pound remained at a fairly constant ratio to the franc, both currencies advancing as the dollar declined and vice versa. Since that time the pound-franc relationship has not been so close, the pound having declined about 7 per cent in terms of the franc.



## DAILY FOREIGN EXCHANGE RATES





Security prices

In securities, as in speculative commodities, the sharp rise in prices that characterized the period from March to July was followed by a pronounced decline. Common stock prices, which according to the Standard Statistics index of 421 stocks rose from 40.9 per cent of the 1926 average on March 1 to 83.4 on July 12, declined to 72.1 on August 16. After a month of strength there was a renewed decline during the last half of September to 68.7 on September 27. Since that date daily figures for a smaller group of stocks show a moderate recovery. Altogether about 30 per cent of the previous rise has been lost. The level of stock prices at present, however, is still about 75 per cent above the low level of last March.

Accompanying the decline in security prices since last July, there has been an equally marked reduction in trading activity. The number of shares sold on the New York Stock Exchange, which had increased from a monthly average of less than 20,000,000 shares in the first quarter of this year to over 120,000,000 in June and July, declined to about 40,000,000 shares in August and September.

Prices of preferred stocks and of bonds also advanced from March to July and continued fairly firm during August, in the face of declines in other markets. About the middle of September, however, there was a pronounced decline in preferred stock and bond prices. The Standard Statistics index of 60 high-grade bonds rose from below 75 in April to slightly over 90 in July, and after fluctuating around 90 for two months, declined to 86.5 in the latter part of September. Lower-grade bonds have shown larger declines. United States Government bonds declined by a fraction of a point in July and again in



the latter part of September, but on the whole their prices have been firm at high levels.

### Security issues

In June and July there was a moderate increase in new security issues to over \$100,000,000 a month, comprising a number of municipal obligations, an issue of Federal Intermediate Credit Bank debentures, and a sizable amount of corporation common stocks. In August and September, however, flotations were very small and included principally a few municipal issues and another block of Intermediate Credit Bank debentures.

New financing for business corporations during the year to date has amounted to less than \$150,000,000, as compared with about \$250,000,000 in the same period last year and with yearly totals of \$1,500,000,000 in 1931 and of \$4,500,000,000 in 1930. Refunding issues have aggregated less than \$350,000,000 in the nine months of this year, as compared with a billion or more in normal years.

Treasury borrowing during the course of 1933 has been reflected in a net growth of the public debt of about \$2,250,000,000 since the end of 1932. In August the Treasury sold \$835,000,000 of 3 1/4 per cent eight year bonds and \$354,000,000 of Treasury notes and in September \$175,000,000 in new certificates were exchanged for maturing certificates. Altogether in the three months of this fiscal year the Treasury issued about \$2,400,000,000 of new securities, including short-term bills and certain special-purpose series, and retired about \$1,900,000,000 of obligations, making a net increase of about \$500,000,000 in the public debt.

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