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Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 11, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 246 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 246

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Executive Order relating to the Hoarding, Export, and Earmarking of Gold Coin, Bullion, or Currency and to Transactions in Foreign Exchange.

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Earnings and Expenses of F.R. Banks, September 1933.

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Earnings and Expenses of F.R. Banks, August 1933

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Mr. Hamlin from Mr. Goldenweiser transmitting analysis of Senator Owen's proposal.

Page 95
Memo to Mr. Hamlin from Division of Examinations attaching statement covering the period March 15, 1933 to September 15, 1933, showing the number of applications for membership in the System approved by the Board and membership completed by the bank; etc.

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(X-7598) Liability of banks on deferred certificates issued to depositors.

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Memo to Mr. Hamlin from Mr. Smead re Depreciation on U. S. Gov. securities owned by F.R. Banks.

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Copy of memo prepared by Dr. Miller for the President, October 11, 1933.

M Hamlin

Aug 8

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EXECUTIVE ORDER

Relating to the Hoarding, Export, and Earmarking

Of Gold Coin, Bullion, or Currency and to

Transactions in Foreign Exchange

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to Provide Relief in the Existing National Emergency in Banking and for other Purposes," I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby prescribe the following provisions for the investigation and regulation of the hoarding, earmarking, and export of gold coin, gold bullion, and gold certificates by any person within the United States or any place subject to the jurisdiction thereof; and for the investigation and regulation of transactions in foreign exchange and transfers of credit and the export or withdrawal of currency from the United States or any place subject to the jurisdiction thereof by any person within the United States or any place subject to the jurisdiction thereof.

Section 2. DEFINITIONS. As used in this Order the term "person" means an individual, partnership, association, or corporation; and the term "the United States" means the United States and any place subject to the jurisdiction thereof.

Section 3. RETURNS. Within fifteen days from the date of this Order every person in possession of and every person owning gold coin, gold bullion, or gold certificates shall make under oath and file as hereinafter provided a return to the Secretary of the Treasury containing true and complete information relative thereto, including the name and address of the person making the return; the kind and amount of such coin, bullion, or certificates held and the location thereof; if held for another, the capacity in which held and the person for whom held, together with the post office address of such person; and the nature of the transaction requiring the holding of such coin, bullion, or certificates and a statement explaining why such transaction cannot be carried out by the use of currency other than gold certificates; provided that no returns are required to be filed with respect to

(a) Gold coin, gold bullion, and gold certificates in an amount not exceeding in the aggregate $100 belonging to any one person;

(b) Gold coin having a recognized special value to collectors of rare and unusual coin;

(c) Gold coin, gold bullion, and gold certificates acquired or held under a license heretofore granted by or under authority of the Secretary of the Treasury; and

(d) Gold coin, gold bullion, and gold certificates owned by Federal reserve banks.

Such return required to be made by an individual shall be filed with the Collector of Internal Revenue for the collection district in which such individual resides, or, if such individual has no legal residence in the United States, then with the Collector of Internal Revenue at Baltimore, Maryland. Such return required to be made by a partnership, association, or corporation shall be filed with the Collector of Internal Revenue of the collection district in which is located the principal place of business or principal office or agency of such partnership, association, or corporation, or, if it has no principal place of business or principal office or agency in the United States, then with the Collector of Internal Revenue at Baltimore, Maryland. Such return required to be made by an individual residing in Alaska shall be filed with the Collector of Internal Revenue at Seattle, Washington. Such return required to be made by a partnership, association, or corporation having its principal place of business or principal office or agency in Alaska shall be filed with the Collector of Internal Revenue at Seattle, Washington.

The Secretary of the Treasury may grant a reasonable extension of time for filing a return, under such rules and regulations as he shall prescribe. No such extension shall be for more than forty-five days from the date of this Executive Order. An extension granted hereunder shall be deemed a license to hold for a period ending fifteen days after the expiration of the extension.

The returns required to be made and filed under this Section shall constitute public records; but they shall be open to public inspection only upon order of the President and under rules and regulations prescribed by the Secretary of the Treasury.

A return made and filed in accordance with this Section by the owner of the gold coin, gold bullion, and gold certificates described therein, or his duly authorized agent, shall be deemed an application for the issuance under Section 5 hereof of a license to hold such coin, bullion, and certificates.

Section 4. ACQUISITION OF GOLD COIN AND GOLD BULLION. No person other than a Federal reserve bank shall after the date of this Order acquire in the United States any gold coin, gold bullion, or gold certificates except under license therefor issued pursuant to this Executive Order, provided that member banks of the Federal Reserve System may accept delivery of such coin, bullion, and certificates for surrender promptly to a Federal reserve bank, and provided further that persons requiring gold for use in the industry, profession, or art in which they are regularly engaged may replenish their stocks of gold up to an aggregate amount of $100, by acquisitions of gold bullion held under licenses issued under Section 5(b), without necessity of obtaining a license for such acquisitions.

The Secretary of the Treasury, subject to such further regulations as he may prescribe, shall issue licenses authorizing the acquisition of

(a) Gold coin or gold bullion which the Secretary is satisfied is required for a necessary and lawful transaction for which currency other than gold certificates cannot be used, by an applicant who establishes that since March 9, 1933, he has surrendered an equal amount of gold coin, gold bullion, or gold certificates to a banking institution in the continental United States or to the Treasurer of the United States;

(b) Gold coin or gold bullion which the Secretary is satisfied is required by an applicant who holds a license to export such an amount of gold coin or gold bullion issued under subdivisions (c) or (d) of Section 6 hereof, and

(c) Gold bullion which the Secretary, or such agency as he may designate, is satisfied is required for legitimate and customary use in industry, profession, or art by an applicant regularly engaged in such industry, profession, or art, or in the business of furnishing gold therefor.

Licenses issued pursuant to this Section shall authorize the holder to acquire gold coin and gold bullion only from the sources specified by the Secretary of the Treasury in regulations issued hereunder.

Section 5. HOLDING OF GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES. After thirty days from the date of this Order no person shall hold in his possession or retain any interest, legal or equitable, in any gold coin, gold bullion, or gold certificates situated in the United States and owned by any person subject to the jurisdiction of the United States, except under license therefor issued pursuant to this Executive Order; provided, however, that licenses shall not be required in order to hold in possession or retain an interest in gold coin, gold bullion, or gold certificates with respect to which a return need not be filed under Section 3 hereof.

The Secretary of the Treasury, subject to such further regulations as he may prescribe, shall issue licenses authorizing the holding of

(a) Gold coin, gold bullion, and gold certificates, which the Secretary is satisfied are required by the person owning the same for necessary and lawful transactions for which currency, other than gold certificates, cannot be used;

(b) Gold bullion which the Secretary, or such agency as he may designate, is satisfied is required for legitimate and customary use in industry, profession, or art by a person regularly engaged in such industry, profession, or art or in the business of furnishing gold therefor;

(c) Gold coin and gold bullion earmarked or held in trust since before April 20, 1933, for a recognized foreign government or foreign central bank or the Bank for International Settlements; and

(d) Gold coin and gold bullion imported for reexport or held pending action upon application for export licenses.

Section 6. EARMARKING AND EXPORT OF GOLD COIN AND GOLD BULLION.

After the date of this Order no person shall earmark or export any gold coin, gold bullion, or gold certificates from the United States, except under license therefor issued by the Secretary of the Treasury pursuant to the provisions of this Order.

The Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, may issue licenses authorizing

(a) The export of gold coin or gold bullion earmarked or held in trust since before April 20, 1933, for a recognized foreign government, foreign central bank, or the Bank for International Settlements;

(b) The export of gold, (i) imported for reexport, (ii) refined from gold-bearing materials imported by the applicant under an agreement to export gold, or (iii) in bullion containing not more than five ounces of gold per ton;

(c) The export of gold coin or gold bullion to the extent actually required for the fulfillment of a contract entered into by the applicant prior to April 20, 1933; but not in excess of the amount of the gold coin, gold bullion, and gold certificates surrendered by the applicant on or after March 9, 1933, to a banking institution in the continental United States or to the Treasurer of the United States; and

(d) The earmarking for foreign account and/or export of gold coin or gold bullion, with the approval of the President, for transactions which the Secretary of the Treasury may deem necessary to promote the public interest.

Section 7. UNITED STATES POSSESSIONS - SHIPMENTS THERETO. The provisions of Sections 3 and 5 of this Order shall not apply to gold coin, gold bullion, or gold certificates which are situated in the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States, and are owned by a person not domiciled in the continental United States. The provisions of Section 4 shall not apply to acquisitions by persons within the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States of gold coin or gold bullion which has not been taken or sent thereto since April 5, 1933, from the continental United States or any place subject to the jurisdiction thereof.

Section 8. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States, by any person within the United States; and the Secretary of the Treasury may require any person engaged in any transaction referred to herein to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction is completed.

Section 9. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations as he may deem necessary to carry out the purposes of this Order. Such regulations may provide for the detention in the United States of any gold coin, gold bullion, or gold certificates sought to be transported beyond the limits of the continental United States, pending an investigation to determine if such coin, bullion, or certificates are held or are to be acquired in violation of the provisions of this Executive Order. Licenses and permits granted in accordance with the provisions of this Order and the regulations prescribed hereunder, may be issued through such officers or agencies as the Secretary may designate.

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

Section 11. The Executive Orders of April 5, 1933, Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates, and April 20, 1933, relating to Foreign Exchange and the Earmarking and Export of Gold Coin or Bullion or Currency, respectively, are hereby revoked. The revocation of such prior Executive Orders shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil or criminal cause prior to said revocation, but all liabilities under said Executive Orders shall continue and may be enforced in the same manner as if said revocation had not been made. This Executive Order and any regulations or licenses issued hereunder may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

August 28, 1933.

Sec Dr

EXECUTIVE ORDER

Relating to the Sale and Export of Gold

Recovered from Natural Deposits

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to Provide Relief in the Existing National Emergency in Banking and for other Purposes", I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby issue the following executive order:

The Secretary of the Treasury is hereby authorized to receive on consignment for sale, subject to such rules and regulations and upon such conditions as he shall prescribe, gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof. Sales may be made:

(a) To persons licensed to acquire gold for use in the arts, industries or professions, or

(b) By export to foreign purchasers.

Such sales shall be made at a price which the Secretary shall determine to be equal to the best price obtainable in the free gold markets of the world after taking into consideration any incidental expenses such as shipping costs and insurance.

Such sales may be made through the Federal reserve banks or such other agents as the Secretary may from time to time designate and shall be subject to such charges as the Secretary may from time to time in his judgment determine.

Every person depositing gold for sale as provided herein shall be deemed to have agreed to accept as conclusive without any right of recourse or review, the determination of the Secretary or his duly authorized agent as to the amount due such person as a result of any sale.

Consignments shall be sold as nearly as may be in the order of their receipt.

The Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, is hereby authorized to issue licenses permitting the export of articles fabricated from gold sold pursuant to this executive order.

This executive order may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

August 29, 1933.

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B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, SEPTEMBER 1933

Federal Reserve Bank	Month of September 1933									January - September 1933		
	Earnings from -					Current expenses		Current net earnings		Current net earnings		
	Discounted bills	Purchased bills	U.S. Govt. securities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Total	Ratio to paid-in capital	Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss
									Per cent		Per cent	
Boston	$7,736	$1,371	$196,851	$17,198	$223,156	$143,823	$166,862	$56,294	6.4	$459,505	5.7	-$280
New York	97,946	5,746	1,189,764	14,810	1,308,266	535,024	572,844	735,422	15.3	7,938,624	18.1	5,559,929
Philadelphia	44,049	1,972	224,204	724	270,949	167,041	177,413	93,536	7.2	1,407,423	11.9	712,155
Cleveland	29,457	1,856	285,093	7,159	323,565	218,931	243,739	79,826	7.9	1,500,094	15.0	884,116
Richmond	50,305	731	98,085	4,298	153,419	131,308	134,573	18,846	4.6	100,915	2.6	-174,015
Atlanta	33,256	656	91,411	4,500	129,823	94,925	104,989	24,834	6.2	317,805	8.9	104,033
Chicago	16,841	2,442	525,411	18,993	563,687	286,251	313,211	250,476	23.1	1,881,566	17.1	1,424,854
St. Louis	8,000	691	121,312	4,372	134,375	114,381	119,743	14,632	4.4	58,482	1.9	-144,863
Minneapolis	8,509	417	98,735	3,959	111,620	86,870	90,877	20,743	8.8	292,909	13.7	166,464
Kansas City	9,904	544	106,411	15,293	132,152	137,815	142,190	-10,038	---	5,617	.2	-181,345
Dallas	12,332	570	86,515	3,202	102,619	94,405	101,037	1,582	.5	3,947	.1	-169,795
San Francisco	21,843	2,141	216,427	12,353	252,764	200,253	205,983	46,781	5.3	1,013,693	12.8	519,541
TOTAL												
Sept. 1933	340,178	19,137	3,240,219	106,861	3,706,395	2,211,027	2,373,461	1,332,934	11.1			
Aug. 1933	375,685	28,031	3,321,294	143,909	3,868,919	2,233,233	2,432,585	1,436,334	11.6			
Sept. 1932	1,061,280	123,001	2,710,798	136,166	4,031,245	2,105,882	2,184,840	1,846,405	14.7			
Jan.-Sept. 1933	7,932,302	1,177,282	26,782,173	1,176,623	37,068,380	20,090,345	22,087,800	14,980,580	13.5	14,980,580	13.5	8,700,794
1932	15,283,878	2,420,545	19,571,174	2,008,668	39,284,265	18,808,255	19,676,428	19,607,837	16.8	19,607,837	16.8	13,496,694

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
OCTOBER 17, 1933.

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B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, AUGUST 1933

Federal Reserve Bank	Month of August 1933									January - August 1933		
	Earnings from -					Current expenses		Current net earnings		Current net earnings		
	Dis-counted bills	Pur-chased bills	U.S. Govt. secu-rities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Total	Ratio to paid-in capital	Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss
									Per cent		Per cent	
Boston	$9,507	$1,638	$190,308	$34,370	$235,823	$151,800	$161,040	$74,783	8.2	$403,211	5.6	-$30,189
New York	105,683	12,160	1,259,689	29,809	1,407,341	555,899	617,126	790,215	15.9	7,203,201	18.5	4,982,826
Philadelphia	63,556	2,356	233,475	698	300,085	168,341	183,212	116,873	8.7	1,313,887	12.4	660,310
Cleveland	29,712	2,218	297,425	7,547	336,902	216,966	236,570	100,332	9.5	1,421,598	15.8	830,564
Richmond	34,963	878	96,286	3,007	135,134	123,997	127,446	7,688	1.8	82,070	2.4	-180,643
Atlanta	17,000	784	91,686	14,856	124,326	99,457	116,129	8,197	2.0	292,971	9.3	98,546
Chicago	25,545	2,917	510,204	19,060	557,726	279,472	331,225	226,501	20.2	1,631,090	16.4	1,191,224
St. Louis	6,203	740	123,054	2,875	132,872	107,442	115,637	17,235	5.1	43,849	1.6	-151,476
Minneapolis	12,199	501	102,646	4,592	119,938	88,579	89,599	30,339	12.4	272,166	14.3	154,380
Kansas City	17,009	650	106,992	16,464	141,115	131,828	136,471	4,644	1.3	15,656	.6	-159,346
Dallas	13,323	690	88,062	2,046	104,121	94,929	99,991	4,130	1.3	2,365	.1	-163,592
San Francisco	40,985	2,499	221,467	8,585	273,536	214,523	218,139	55,397	6.1	966,912	13.8	503,988
TOTAL												
August 1933	375,685	28,031	3,321,294	143,909	3,868,919	2,233,233	2,432,585	1,436,334	11.6			
July 1933	*373,638	32,851	3,349,183	96,255	*3,851,927	2,198,620	2,291,962	*1,559,965	*12.6			
August 1932	1,284,044	129,864	2,753,662	199,155	4,366,725	2,133,807	2,340,309	2,026,416	15.6			
Jan-Aug. 1933	7,592,124	1,158,145	23,541,954	1,069,762	33,361,985	17,879,318	19,713,009	13,648,976	13.8	13,648,976	13.8	7,736,592
1932	14,222,600	2,297,544	16,860,376	1,872,502	35,253,022	16,702,374	17,491,589	17,761,433	17.1	17,761,433	17.1	12,367,341

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
SEPTEMBER 15, 1933.

*Revised.

880

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 18, 1933

See Bk

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

EAG

GPO 2--8495

Mr. Thomas has prepared the attached analysis of Senator Owen's proposal, received with your memorandum of September 8, 1933.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 15, 1933

To Mr. Goldenweiser

From Mr. Thomas

Subject: Senator Owen's proposal

Senator Owen's proposal is to make use of the provisions of the so-called Thomas Amendment, calling for the purchase of Government securities either by the Federal reserve BANKS in the usual manner or by the Treasury in exchange for United States notes (greenbacks).

Either of these methods would increase member bank reserves. Currency issued to retire bonds would immediately flow back to banks and thence to the reserve banks. Either method would also increase bank deposits to some extent, although securities purchased from banks would not directly affect the volume of bank deposits. They would simply be an exchange of assets by banks.

The principal difference in the two schemes would be shown in the reserve bank statement. Issuance of greenbacks would reduce the volume of Federal reserve notes in circulation and when the occasion called for a tightening of the money market the reserve banks would be unable to absorb all of the surplus reserves by open-market sales of securities. Open-market purchases in lieu of greenback issues, however, would give the reserve banks additional assets that could be used to mop up excess reserves when necessary.

In regard to the advisability of adopting this proposal, and to the theories advanced by Senator Owen in its favor, the following comments may be made:

(1) In a moderate manner open-market purchases are now being made by the Federal reserve banks.

(2) Extensive purchases to the limits permitted by the Act do not seem to be necessary, Member banks already possess more than $700,000,000 of excess reserves, an amount that is sufficient to support an expansion in member bank credit to the maximum amount outstanding in 1929.

(3) The principal problem now is not so much to increase the quantity of basic reserves as to stimulate the use of available resources by banks, business concerns, and individuals.

(4) The price level depends not only upon the supply of money, but also upon the extent and manner in which the money supply is used. The holding of idle bank deposits or of hoarded currency has no positive effect upon prices or upon the volume of business.

(5) For this reason the value of money <u>cannot</u> be regulated solely by laws and governmental policies, but depends upon the operation of a variety of economic forces.

(6) Since most of the money supply is in the form of bank deposits, the value of money depends in the final analysis upon the goodness of the assets held by banks.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 11, 1933

To Mr. Goldenweiser

Subject: Senator Owen's Proposal

From Mr. Thomas

JW.T.

16—852

In the final analysis Senator Owen's proposal is to make use of the ~~re~~provisions of the so-called Thomas Amendment in order to stimulate a rise in prices.

The mechanism provided for in the Thomas Amendment is familiar. Either the Federal reserve banks are to purchase Government securities in the open market or the Treasury is to purchase them in exchange for United States notes (greenbacks). The latter process would simply turn currency over to present holders of Government securities, which are mostly banks, institutional investors, and individual investors. So far as concerns the institutions and individuals, the currency would no doubt be immediately deposited in banks awaiting subsequent reinvestment, and bank deposits would be correspondingly increased. As concerns securities purchased from banks, there would be no increase in bank deposits but a decline in the investment holdings of banks. Since the amount of currency in circulation depends entirely upon the needs for hand cash plus hoarding, banks would find themselves with a redundance of cash in vault both because of cash received for their own securities and cash deposited by others. They would immediately turn in their redundant cash to the Federal reserve banks, either retiring borrowings or increasing their reserve balances. Since member bank borrowings at the reserve banks are now so small as to be considered almost negligible, most of the effects of these transactions would be reflected in an increase of member bank reserve balances.

As Senator Owen recognizes, the same effects upon member bank reserves can be obtained by Federal reserve bank open market purchases of Government securities. Holders of Government securities would obtain checks on Federal reserve banks which would be deposited in member banks and used by them to increase their reserve balances.

The principal difference between the two schemes would lie in the effect upon the condition of the reserve banks. In the case of open market operations the reserve banks increase their assets in the form of holdings of Government securities and increase their liabilities in the form of member bank reserve balances. There might be other changes, but under present conditions with gold movements prohibited and member bank borrowings practically negligible these changes would probably not be particularly important. In the case of retirement of Government debts by means of greenbacks, the new notes, which can be retired only slowly, would replace Federal reserve notes or Federal reserve bank notes in circulation. Consequently the increase in member bank reserve balances at Federal reserve banks would be balanced by a decrease of notes in circulation. There would be no increase in assets.

This difference would become important when a reversal in Federal reserve policy became necessary and it was desired to restrict credit expansion. In this case the reserve banks would possess an insufficient amount of earning assets to mop up all of the excess reserves of member banks, and the potential expansion of credit would be almost unlimited. It is, of course, possible in such an event to take advantage of another provision of the Thomas Amendment and increase reserve requirements. This step would place restrictions upon all banks alike, including some which might not have been expanding credit and some which might be unable to supply the additional reserves required.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 21, 1933.

To Mr. Hamlin.

Subject:

From Division of Examinations.

JBM

gpo 2—8495

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There is attached a statement covering the period March 15, 1933, to September 15, 1933, showing the number of applications for membership in the System approved by the Board and membership completed by the bank; approved by the Board and membership not completed by the bank; applications upon which action has been deferred; application withdrawn, etc.

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Exam 5
(9-18-33)

Mar 15 - Sept 15. 1933

RECAPITULATION

	Number of banks	Capital	Surplus	Undivided profits and reserves	Total Deposits
Admitted to membership	124	$30,764,000	$23,379,000	$16,267,000	$361,900,000
Applications approved, membership not completed	20	2,430,000	1,514,000	1,493,000	35,119,000
Miscellaneous applications; deferred by Board, withdrawn, etc.	27	10,590,000	9,743,000	3,970,000	81,854,000
Grand Total	171	$43,784,000	$34,636,000	$21,730,000	$478,873,000

Exam 5
(9-18-33)

STATE INSTITUTIONS ADMITTED TO MEMBERSHIP

MARCH 1, 1933, to SEPTEMBER 15, 1933.

District No. 1.	Capital	Surplus	Undivided profits and reserves	Total Deposits
Union & New Haven Tr Co., New Haven, Conn.	$ 1,459,000	$1,000,000	$ 300,000	$12,308,000
Brooks Bank & Tr. Co., Torrington, Conn.	100,000	100,000	84,000	1,112,000
Waterbury Trust Co., Waterbury, Conn.	300,000	200,000	114,000	2,129,000
Bridgewater Trust Co., Bridgewater, Mass.	100,000	100,000	61,000	519,000
Boulevard Trust Co., Brookline, Mass.	350,000	350,000	155,000	4,809,000
Everett Bank & Trust Co., Everett, Mass.	200,000	200,000	694,000	3,163,000
	$2,509,000	$1,950,000	$1,408,000	$24,040,000
District No. 2.				
Summit Trust Co., Summit, N. J.	600,000	200,000	136,000	5,727,000
Bank of Millbrook, Millbrook, N. Y.	100,000	100,000	147,000	2,176,000
Garden City Bank & Tr Co., Garden City, N. Y.	150,000	92,000	32,000	1,875,000
County Trust Co, New York, N. Y.	2,000,000	1,000,000	258,000	19,368,000
Salamanca Trust Co., Salamanca, N. Y.	200,000	400,000	155,000	2,852,000
Adirondack Trust Company Saratoga Springs, N. Y.	250,000	250,000	554,000	7,212,000
State Bank of Sea Cliff, N. Y.	100,000	50,000	69,000	518,000
Southampton Bank, Southampton, N. Y.	100,000	200,000	55,000	1,604,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 2				
Washington Irving Trust Co., Tarrytown, N. Y.	$100,000	100,000	122,000	1,231,000
Citizens Bank, White Plains, N. Y.	400,000	400,000	213,000	5,874,000
	$4,000,000	2,792,000	$1,791,000	$48,437,000
District No. 3				
Gimbel Bros. Bank & Tr. Co., Philadelphia, Pa.	$200,000	$ 50,000	$64,000	$1,550,000
District No. 4				
Bourbon Agricultural Bank & Trust Co., Paris, Ky.	200,000	200,000	114,000	1,021,000
Ashland Bank & Savings Co., Ashland, Ohio	150,000	150,000	11,000	1,292,000
Fayette State Savings Bank, Fayette, Ohio	50,000	25,000	4,000	237,000
Citizens Bank & Svgs. Co., Leesburg, Ohio	25,000	5,000	1,000	126,000
Peoples Savings Bank Co., Martins Ferry, Ohio	200,000	200,000	65,000	1,969,000
Knox County Savings Bank, Mt. Vernon, Ohio	150,000	90,000	39,000	941,000
Bank of Russellville, Russellville, Ohio	25,000	25,000	45,000	251,000
Commerce Guardian Bank, Toledo, Ohio	500,000	250,000	299,000	4,646,000
Peoples Savings Bank, Van Wert, Ohio	100,000	100,000	37,000	899,000
Homewood Bank at Pittsburgh, Pittsburgh, Pa.	100,000	25,000	29,000	613,000
	$1,500,000	1,070,000	$644,000	$11,995,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 5				
American Security & Tr.Co., Washington, D. C.	$3,400,000	$3,400,000	$855,000	$32,042,000
Washington Loan & Tr. Co., Washington, D. C.	1,000,000	2,350,000	116,000	14,595,000
Fidelity Trust Co., Baltimore, Md.	1,000,000	1,250,000	627,000	15,454,000
Farmers Exchange Bank, Abingdon, Va.	50,000	10,000	4,000	263,000
Planters Bank & Trust Co., Farmville, Va.	50,000	125,000	21,000	919,000
Bank of Glade Spring, Glade Spring, Va.	50,000	50,000	33,000	362,000
Lynchburg Tr. & Svgs. Bank, Lynchburg, Va.	300,000	300,000	270,000	3,932,000
Merchants & Farmers Bank, Smithfield, Va.	300,000	300,000	397,000	3,653,000
Farmers & Mechanics Bank, West Point, Va.	50,000	25,000	7,000	288,000
Buffalo Bank, Buffalo, W. Va.	25,000	20,000	7,000	117,000
Greenbrier Valley Bank, Lewisburg, W. Va.	75,000	38,000	14,000	351,000
Bank of St. Albans, St. Albans, W. Va.	50,000	100,000	5,000	303,000
Traders Tr. & Banking Co., Spencer, W. Va.	80,000	22,000	1,000	462,000
	$6,430,000	$7,990,000	$2,357,000	$72,741,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 6				
Bank of Pine Apple, Pine Apple, Ala.	$ 25,000	$ 25,000	$ 3,000	$ 169,000
Bank of York, York, Ala.	25,000	15,000	7,000	227,000
Peoples Savings Bank, Clanton, Ala.	50,000	25,000	25,000	263,000
Columbiana Savings Bank, Columbiana, Ala.	35,000	7,000	10,000	182,000
Dothan Bank & Trust Co., Dothan, Ala.	60,000	60,000	34,000	670,000
Marion Junction State Bank, Marion Junction, Ala.	25,000	15,000	5,000	29,000
Watkins Banking Co., Faunsdale, Ala.	50,000	35,000	12,000	111,000
Central Farmers Trust Co., West Palm Beach, Fla.	250,000	250,000	150,000	2,985,000
Bank of Adairsville, Adairsville, Ga.	25,000	-	2,000	46,000
State Bank of Cochran, Cochran, Ga.	25,000	7,000	2,000	125,000
Merch. & Mechanics Bank, Columbus, Ga.	200,000	200,000	170,000	1,481,000
Bank of Tifton, Tifton, Ga.	100,000	150,000	65,000	576,000
Truckers Exchange Bank, Crystal Springs, Miss.	25,000	-	4,000	40,000
Citizens Bank & Trust Co., Carthage, Tenn.	25,000	5,000	-	154,000
American Tr. & Banking Co., Chattanooga, Tenn.	625,000*	750,000*	57,000*	6,004,000*
* These figures taken from call report of June 30, 1933.				
Bank of Hartsville, Hartsville, Tenn.	25,000	25,000	-	205,000
	$1,570,000	$1,569,000	$544,000	$13,267,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 7				
Farmers State Bank, Belvidere, Ill.	$100,000	$100,000	$ 9,000	$ 525,000
Peoples Bank, Bloomington, Ill.	100,000	500,000	51,000	3,817,000
Rock River Community Bank, Byron, Ill.	50,000	10,000	1,000	190,000
Amalgamated Tr. & Svgs. Bk., Chicago, Ill.	200,000	100,000	86,000	1,903,000
Hamilton State Bank, Chicago, Ill.	200,000	40,000	2,000	243,000
Lake Shore Tr. & Svgs.Bank, Chicago, Ill.	400,000	150,000	343,000	3,800,000
Lake View Tr. & Svgs. Bank, Chicago, Ill.	500,000	500,000	1,081,000	5,811,000
Liberty Bank of Chicago, Chicago, Ill.	300,000	100,000	211,000	2,198,000
Merchandise Bank & Tr. Co., Chicago, Ill.	500,000	500,000	217,000	3,339,000
Metropolitan State Bank, Chicago, Ill.	200,000	100,000	71,000	385,000
Sears Community State Bank, Chicago, Ill.	200,000*	20,000*	40,000*	3,069,000*
* These figures taken from call report of June 30, 1933.				
Skala State Bank, Chicago, Ill.	200,000	29,000	27,000	381,000
State Bank of Clearing, Chicago, Ill.	100,000	25,000	49,000	667,000
Upper Avenue Bank, Chicago, Ill.	200,000	100,000	99,000	1,267,000
Uptown State Bank, Chicago, Ill.	500,000	100,000	6,000	1,323,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 7 (Cont'd)				
State Bank of London Mills, Ill.	$ 40,000	$ 40,000	$ 2,000	$ 216,000
Metamora State Bank, Metamora, Ill.	50,000	11,000	34,000	250,000
Citizens State Bank, Milford, Ill.	50,000	10,000	20,000	391,000
State Bank of Niantic, Niantic, Ill.	60,000	25,000	4,000	220,000
Poplar Grove Bank, Poplar Grove, Ill.	25,000	20,000	4,000	233,000
Tuscola State Bank, Tuscola, Ill.	70,000	70,000	23,000	373,000
Citizens State Bank, Walnut, Ill.	25,000	5,000	2,000	166,000
Danforth Banking Co., Washington, Ill.	50,000	10,000	11,000	483,000
Davenport Bk. & Tr. Co., Davenport, Iowa	600,000	200,000	109,000	11,489,000
State Savings Bank, Fontanelle, Iowa	40,000	17,000	17,000	368,000
Holstein State Bank, Holstein, Iowa	50,000	10,000	4,000	478,000
Ida County State Bank, Ida Grove, Iowa	40,000	8,000	-	325,000
Muscatine Bank & Tr. Co., Muscatine, Iowa	125,000	75,000	60,000	2,751,000
Templeton Savings Bank, Templeton, Iowa	25,000	7,000	2,000	180,000
West Side Bank, Milwaukee, Wis.	400,000	400,000	480,000	2,148,000
Home State Bank, South Milwaukee, Wis.	60,000	40,000	8,000	483,000
	$5,460,000	$3,322,000	$3,073,000	$49,472,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 8				
Bankers Com'l Trust Co., Little Rock, Ark.	$300,000	$ 60,000	$ 40,000	$2,941,000
Peoples Bank, Little Rock, Ark.	200,000	40,000	10,000	1,676,000
Union Bank, Little Rock, Ark.	300,000	60,000	41,000	3,942,000
State Bank of Breese, Breese, Ill.	50,000	50,000	15,000	644,000
First State Bank, Chester, Ill.	50,000	25,000	44,000	873,000
Bank of Edwardsville, Edwardsville, Ill.	150,000	150,000	44,000	1,092,000
C. P. Burnett & Sons, Eldorado, Ill.	50,000	50,000	10,000	1,536,000
Elliott State Bank, Jacksonville, Ill.	200,000	100,000	60,000	1,679,000
State Bank of Steeleville, Steeleville, Ill.	25,000	25,000	24,000	357,000
Neat, Condit & Grout, Bankers, Winchester, Ill.	110,000	30,000	8,000	296,000
Glasgow Savings Bank, Glasgow, Mo.	75,000	75,000	33,000	441,000
Bank of Memphis, Memphis, Mo.	25,000	5,000	4,000	188,000
The Plaza Bank of St. Louis, St. Louis, Mo.	200,000	40,000	6,000	1,929,000
Sedalia Bank & Trust Co., Sedalia, Mo.	100,000	5,000	6,000	425,000
	$1,835,000	$715,000	$345,000	$17,819,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 9				
State Bank of Terry, Terry, Mont.	$ 20,000	$ 60,000	$ 27,000	$ 610,000
Belvidere State Bank, Belvidere, S. Dak.	25,000	5,000	11,000	190,000
Hand County State Bank, Miller, S. Dak.	25,000	5,000	3,000	159,000
Bear Butte Valley Bank, Sturgis, S. Dak.	25,000	15,000	16,000	327,000
Sanborn County Bank, Woonsocket, S. Dak.	25,000	10,000	17,000	179,000
Peoples State Bank, Bloomer, Wis.	25,000	-	1,000	106,000
	$145,000	$95,000	$75,000	$1,571,000
District No. 10				
Citizens Bank, Abilene, Kans.	50,000	50,000	46,000	602,000
Hutchinson State Bank, Hutchinson, Kans.	150,000	52,000	4,000	958,000
Citizens State Bank, Osage City, Kans.	20,000	20,000	5,000	502,000
Bank of Carthage, Carthage, Mo.	150,000	50,000	49,000	1,131,000
Bank of Craig, Craig, Mo.	25,000	15,000	11,000	144,000
Citizens Bank, Bancroft, Nebr.	30,000	30,000	4,000	145,000
Stromsburg Bank, Stromsburg, Nebr.	20,000	10,000	8,000	352,000
State Bank of Wheatland, Wheatland, Wyo.	40,000	60,000	323,000	470,000
Stockgrowers Bank, Wheatland, Wyo.	40,000	26,000	21,000	260,000
Farmers State Bank, Worland, Wyo.	25,000	33,000	2,000	266,000
	$550,000	$348,000	$473,000	$4,630,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 11				
Huntsville Bank & Tr. Co., Huntsville, Texas	$ 50,000	$ 10,000	$ 18,000	$ 264,000
City State Bk. & Tr. Co., McAllen, Texas	60,000*	-	-	143,000*
Roscoe State Bank, Roscoe, Texas	30,000	15,000	1,000	191,000
	$140,000	$ 25,000	$ 19,000	$ 598,000

* These figures taken from call report of June 30, 1933.

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 12				
California Bank, Los Angeles, Calif.	5,000,000	1,700,000	3,860,000	78,790,000
Central Savings Bank, Oakland, Calif.	1,200,000	1,650,000	1,587,000	35,576,000
Citizens State Bank, Santa Paula, Calif.	100,000	50,000	19,000	435,000
State Security Bank, Brigham, Utah	100,000	50,000	7,000	792,000
Cashmere Valley Bank, Cashmere, Wash.	25,000	3,000	1,000	207,000
	$6,425,000	$3,453,000	$5,474,000	$115,800,000
Total number of banks	$30,764,000	$23,379,000	$16,267,000	$361,900,000

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APPLICATIONS APPROVED - MEMBERSHIP NOT COMPLETED

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 1				
Brookline Trust Co., Brookline, Mass.	$200,000	$300,000	$ 422,000	$11,925,000
District No. 2				
Leonia Bank & Tr. Co., Leonia, N. J.	100,000	50,000	45,000	1,286,000
District No. 4				
Dormont Svgs. & Tr. Co., Dormont, Penna.	125,000	100,000	56,000	1,685,000
District No. 5				
Farmers & Mechanics Bank, West Point, Virginia	50,000	25,000	7,000	288,000
Capital City Bank, Charleston, W. Va.	200,000	70,000	20,000	974,000
District No. 7				
Boulevard Bridge Bank, Chicago, Ill.	500,000	250,000	397,000	7,887,000
Western State Bank, Cicero, Ill.	200,000	100,000	180,000	389,000
Merch. & Farmers Bank, Grays Lake, Ill.	50,000	25,000	29,000	309,000
Citizens Banking Co., Anderson, Ind.	300,000	150,000	24,000	1,267,000
District No. 8				
Fordyce Bk. & Trust Co., Fordyce, Ark.	50,000	5,000	6,000	275,000
Peoples Bank of Indianola, Miss.	25,000	3,000	3,000	171,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 10				
Sylvan State Bank, Sylvan Grove, Kans.	$ 25,000	$50,000	$12,000	$342,000
Commercial Bank, Grand Island, Nebr.	100,000	34,000	5,000	881,000
District No. 11				
Southern Ariz. Bk. &Tr. Co., Tucson, Ariz.	250,000	300,000	174,000	4,709,000
Atoka State Bank, Atoka, Okla.	25,000	7,000	11,000	349,000
District No. 12				
Buhl State Bank, Buhl, Idaho	30,000	10,000	6,000	426,000
Caldwell State Bank, Caldwell, Idaho	50,000	10,000	18,000	520,000
Nampa State Bank, Nampa, Idaho	50,000	10,000	43,000	547,000
Rupert State Bank, Rupert, Idaho	50,000	10,000	29,000	309,000
Weiser State Bank, Weiser, Idaho	50,000	5,000	6,000	580,000
	$2,430,000	$1,514,000	$1,493,000	$35,119,000

MISCELLANEOUS
(Applications deferred by Board &
withdrawn by applicant, etc.)

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 1				
Hartford-Conn. Tr. Co., Hartford, Conn.	$3,000,000	$3,000,000	$1,119,000	$22,746,000
District No. 2				
Town Trust Co., Montclair, N. J.	100,000	25,000	10,000	381,000
West Side Trust Co., Newark, N. J.	1,075,000	1,500,000	30,000	6,096,000
South Side Bank, Bay Shore, N. Y.	100,000	20,000	184,000	1,203,000
Erie County Trust Co., East Aurora, N. Y.	100,000	50,000	28,000	1,606,000
Bank of Elmira Heights, Elmira Heights, N. Y.	60,000	15,000	22,000	382,000
Watkins State Bank, Watkins Glen, N. Y.	50,000	50,000	36,000	486,000
Westchester Trust Co., Yonkers, N. Y.	300,000	1,725,000	-	7,632,000
District No. 4				
Bank of Commerce, Lexington, Ky.	300,000	300,000	10,000	1,596,000
Peoples Deposit Bk.&Tr. Co., Paris, Ky.	150,000	150,000	18,000	1,004,000
Cincinnati Bank & Tr. Co., Cincinnati, Ohio	150,000	200,000	155,000	2,689,000
Ohio Merchants Tr. Co., Massillon, Ohio	250,000	50,000	186,000	555,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District No. 4 (Cont'd)				
Union Trust Co., Butler, Penna.	$200,000	$125,000	$114,000	$1,578,000
Farmers & Merch. Tr. Co., Greenville, Penna.	125,000	175,000	119,000	1,586,000
District No. 5				
Bank of Raleigh, Beckley, W. Va.	150,000	50,000	-	1,440,000
District No. 6				
Florida Bank at Orlando, Fla.	100,000	54,000	24,000	2,345,000
District No. 7				
Farmers State Bank, Chadwick, Ill.	30,000	8,000	4,000	168,000
Banco Di Napoli Tr. Co., Chicago, Ill.	300,000	100,000	149,000	989,000
Drovers Tr. & Svgs. Bank, Chicago, Ill.	350,000	500,000	375,000	4,301,000
Personal Loan & Svgs. Bk., Chicago, Ill.	2,000,000	500,000	700,000	3,920,000
District No. 8				
Buena Vista State Bank, Chester, Ill.	25,000	17,000	5,000	340,000
Guaranty Plaza Trust Co., St. Louis, Mo.	200,000	200,000	48,000	2,038,000
Lafayette South Side Bank & Trust Company, St. Louis, Mo.	600,000	200,000	9,000	5,465,000
District No. 9				
Bank of Alpena, Alpena, S. Dak.	25,000	4,000	-	77,000

	Capital	Surplus	Undivided profits and reserves	Total deposits
District [illegible]				
City Bank & T[illegible] Kansas City, [illegible]	$300,000	$400,000	$501,000	$6,062,000
District No. 11				
City Svgs. Bk. & Tr. Co., Shreveport, La.	500,000	300,000	105,000	4,682,000
Robinson State Bk.&Tr. Co., Palestine, Texas	50,000	25,000	19,000	487,000
	$10,590,000	$9,743,000	$3,970,000	$81,854,000

(All figures taken from banks' application papers)

Serial Bk

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7598

September 21, 1933.

SUBJECT: Liability of banks on deferred certificates issued to depositors.

Dear Sir:

There is inclosed herewith for your information a copy of a letter the Federal Reserve Board has addressed to the Auditor of Public Accounts of the State of Illinois with regard to the liability of certain banks in that State on deferred certificates issued to depositors who waive their right to demand immediate payment of a part of their claims against the bank.

Yours very truly,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

see Bp

Date November 17, 1933

To Mr. Hamlin

Subject: Depreciation on U. S. Government securities owned by F. R. banks

From Mr. Smead

GPO 16—852

With reference to your recent request it was not practicable to ascertain from data on file in this office the amount of depreciation on United States Government securities owned by the Federal Reserve banks and accordingly we have obtained from the Federal Reserve Bank of New York the necessary information with respect to securities held in the Special Investment Account and in the New York bank's own portfolio. According to the figures furnished by the Federal Reserve Bank of New York, on November 15 there was a net depreciation, on the basis of closing bid prices, of $5,618,300 in the System Special Investment Account and of $362,100 in securities owned by the Federal Reserve Bank of New York. On the basis of such information as is available regarding the Government securities held by other Federal Reserve banks and the book value of such securities, it is estimated that on November 15 there was a net depreciation of about $650,000 in Government securities held in their own portfolios by Federal Reserve banks other than New York.

Liberty bonds held in Special Investment Account on November 15 had a market value of approximately $3,250,000 in excess of book value while other securities held in Special Investment Account showed depreciation as follows:

Other bonds	$282,300
Treasury notes	8,263,600
Certificates of indebtedness	200,500
Treasury bills	121,700

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A detailed statement showing the depreciation or appreciation in securities held in the Special Investment account and in the New York bank's own portfolio is being furnished the Board.

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Sernn

Memo. R. A. T. Sept. 30. 1933.

The price of the dollar in foreign exchange is determined by the ratio between payments out-from and payments in-to the country. It is a simple supply and demand phenomenon, like any price.

Payments out-from and in-to a country may be classified as follows: (1) payments on income account which may be subdivided (A) goods and services, (B) interest and profits; and (2) payments on capital account shich may be subdivided (A) short term capital, (B) long term capital.

The decline of the dollar in the last few months must imply an expectation on the part of speculators that our balance of international payments is about to undergo an important change. Is such an expectation reasonable?

* * * * *

The fallacy that lies behind speculation in foreign exchange to-day is that a change in the price-level in one country necessarily leads to a corresponding change in the value of its currency on foreign exchange. The answer is:- it does only in so far as international trade and investment lead to a shift in that country's balance of payments. Take, for example, the drop in the price-level in this country from the summer of 1929 to the summer of 1932 relative to the drop in other countries on the gold standard. One would think that the French franc ought to have depreciated, or that the dollar ought to have appreciated, as there was such a marked difference in the behaviour of these respective price-levels which had for several years shown a good correlation. On the contrary, they both showed the same tendency (to appreciate with gold). This was due, of course, to movements of capital in the case of the franc, and movements of income (or lack of movement of capital, if you will) in the case of the dollar. In this particular case, therefore, the change in our internal price-level must have been offset by a change in our balance of payments on capital account (which now appears to have been highly unstable during the 'twenties *).

It is true, of course, that violent changes in the relative internal price-levels between two or more countries does often lead to a change in foreign exchange rates. But there is no way in which this can occur (except temporarily by speculation) except through a shift of international trade and investment which the new price level brings about. It is my thought that, given the peculiar position of the United States in foreign trade and investment, such a shift in our BALANCE of payments is not likely to occur, and therefore that a permanently lower level for the dollar in terms of other currencies is not a reasonable expectation.

* The stability of any unfavorable balance of payments on capital account seems to be dependent upon whether the annual new investment is equal to the increase in productive efficiency of its debtors, for any country. If not, a kind of snowball is rolled up and the end-result is apt to be catastrophic. In the case of the U.S.A. during the 'twenties, it was certainly not equal, and became catastrophic.

During the 1920's, the balance of payments was so heavily in our favor that we had to invest half a billion to a billion a year abroad in order to maintain equilibrium. As soon as we stopped this annual investment, other countries' currencies began to crack.

Now, I submit that we are not likely to go in for heavy foreign investments in the next few years. There will therefore be a great pressure from this cause to send the dollar up.

Our balance of trade shows great obstinacy against turning from "favorable" to "unfavorable". With protective tariffs, embargoes and quotas being continually increased, it seems more likely that our foreign trade will dwindle to zero than that it will turn unfavorable, And even if it should turn unfavorable, the amount will be small on account of the great increase in obstacles to international traffic. Thus there would not be any great pressure to depress the dollar from this source.

The return of interest, dividends, and amortization on our vast foreign investments has shrunk very greatly and many of them have doubtless been irretrievably lost. But it is absurd to say that they are all lost forever, and with a world-wide pickup in business such as now seems to have been started, it is reasonable to expect that these payments will be in some measure restored.

I doubt that the drop in this investment income plus the drop in our export surplus will exceed the amount which we were accustomed to invest abroad annually during the 'twenties. This is a matter of estimate, but, taking it over a period of normal years, most students, I think would agree. Any discrepancy would be offset by a decrease in tourists' expenditures and immigrant remittances which are most unlikely to show any large gain over their 1920~~/~~30 levels:- decrease is more to be expected.

Therefore it seems to me that the dollar is a better buy than sell to-day. (Quotations $4.80 sterling and 6¢ franc).

* * * * *

As for the gold value of various currencies, it is scarcely important or interesting enough to merit discussion. Gold may go up or down, but it is the relation between currency values on the exchange market which matters.

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Serat book

Copy of Memorandum prepared by Dr. Miller for the
President
October 11, 1933.

The platform on which I was elected declared in favor of "A sound currency to be preserved at all hazards." On that declaration I stand. It is my desire to see our currency placed on a gold basis when conditions become favorable. But a sound currency means something more than the gold standard. Our experience under the gold standard in recent years has clearly demonstrated that the gold standard alone is not sufficient to insure monetary safety and stability. It is my intention that when our currency is again placed on a permanent basis, it shall be under conditions and safeguards which will insure its maintenance and soundness and promote monetary, financial and economic stability.

The conditions under which the gold basis can be restored safely do not at this time exist in the United States and elsewhere in the world at large. Economic recovery must first proceed to the point where the price structure will have attained more stable relationships and price levels a more normal position. When that point is reached in the process of recovery, the true position of the dollar can be determined and the currency of the country be placed on a permanent and sound basis.

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September 21, 1933.

Hon. Edward J. Barrett,
Auditor of Public Accounts,
State of Illinois,
Springfield, Illinois.

Dear Mr. Barrett:

Reference is made to the conferences which you and members of your staff had with members of the Federal Reserve Board and the Board's staff on September 11, and 12, 1933, with regard to the obligation of reorganized State banks located in the State of Illinois on deferred certificates which they have issued to their depositors who have waived their right to demand immediate payment of their deposits. Reference is also made to your letter of September 12, 1933, inclosing copies of the Depositor's Agreement and the Deferred Certificate which have been used in the reorganization of the State Bank of Collinsville, Collinsville, Illinois. It is understood that the provisions of this agreement and certificate are substantially similar to the provisions of agreements and certificates which have been used in the reorganization of many other State banks in Illinois, and the Federal Reserve Board has given most careful and sympathetic consideration to the problems involved in this matter.

It has been observed that the Depositor's Agreement provides that, in lieu of payment in cash of 50 per cent of his deposit claim, the depositor will accept a deferred certificate issued by the bank for a like amount, payable out of future recoveries on segregated assets and the net profits of the Bank, and before any dividend or returns of any kind or character are payable to stockholders. The Deferred Certificate which is issued by the bank states that the bank agrees to pay the amount represented by the deferred certificate to the holder thereof solely out of the future net profits of the bank and recoveries, but, in all events, before the payment of any dividends to the stockholders of the bank. It further provides that, in the event of liquidation, the termination of the bank's business, the consolidation with or transfer of all or a major part of its assets to another banking institution prior to the payment of the deferred certificate, the holder of the certificate shall be entitled to share in the proceeds of the liquidation, sale, merger, or consolidation after liabilities of the bank to its depositors and other creditors shall have been paid or provided for and that, in any event, the holder of the certificate shall be entitled to priority over any of the stockholders of the bank.

In these circumstances, it seems apparent that a bank issuing such a deferred certificate assumes a definite obligation to pay the amount of such certificate at some time, and that there is no way by which it can be released from such obligation except by the consent of the certificate holder. The obligation of the bank for the payment of such deferred claim is a liability of the bank, to the same extent as the obligation of the bank to pay the claim of any depositor. The only differences between the two classes of claims are as to time of payment and preference of payment in the event of liquidation, and it seems clear that these differences do not justify a conclusion that there is no liability on the bank for the payment of the deferred certificates described above.

The Board has considered the suggestion which has been made that the stockholders of the bank have authorized the bank to act merely as agent in distributing to deferred certificate holders future recoveries and earnings, to which the stockholders would normally be entitled, and that, accordingly, the liability for the payment of such deferred certificates is on the stockholders of the bank rather than on the bank itself. However, it does not appear how this can be true, on the basis of the facts involved in the case presented, when the stockholders of the bank are not parties to any of the agreements but such agreements are between the bank itself and the depositors thereof. It may also be noted that there does not appear to be any way in which a stockholder can relieve a bank from its liability to pay the claims of depositors, but that a bank can only be relieved of such liability by the agreement of the depositor and in accordance with the terms of any agreement executed by the depositor. As noted above, the depositors here involved have not relieved the bank of the obligation to pay their deposits but have merely entered into agreements with the bank, permitting a deferment of payment of such claims.

After a careful consideration of all the circumstances involved in this matter, the Federal Reserve Board is of the opinion that a bank which issues deferred certificates such as the one inclosed in your letter of September 12, 1933, has a liability for the payment of such certificates.

Under the provisions of Section 9 of the Federal Reserve Act, a State bank may not be admitted to membership in the Federal Reserve System unless it has an unimpaired capital. Accordingly, in any case where a bank has issued deferred certificates of the kind described above and the amount of liability on such certificates, together with the other liabilities of the bank to depositors and other creditors, as compared with the amount of the assets of the bank, is sufficient to impair the bank's capital stock, it would not be eligible for admission to membership in the Federal Reserve System.

As suggested when you conferred with members of the Board, the fact that reorganized Illinois State banks may not at this time be eligible for admission to membership in the Federal Reserve System on account of an impairment of their capital, as a result of liability on deferred certificates of the kind described above, need not necessarily result in serious consequences to such banks. It is possible that these banks may obtain the benefits of the Federal Deposit Insurance Corporation and, while entitled to such benefits, eliminate their liability on deferred certificates and become eligible for admission to membership in the Federal Reserve System. It is understood that you have taken this matter up with the Federal Deposit Insurance Corporation.

It would seem that the liability of a bank on such deferred certificates might be eliminated by having the bank transfer all charged off assets to trustees for the benefit of deferred certificate holders and obtain from each certificate holder an agreement releasing the bank from any liability on such certificates and accepting, in lieu thereof, a certificate from the trustees entitling the certificate holder to a pro rata share of any recoveries from the charged off assets transferred to the trustees.

If deemed advisable, agreements might also be obtained from the stockholders of the bank to the effect that, until all certificates issued by such trustees have been paid in full, the stockholders will transfer to the trustees, for the benefit of the certificate holders, any dividends declared on their stock by the bank. The Board questions the advisability of a bank obtaining any such agreement from its stockholders, since it is apparent that, for a considerable period of time, any dividends on the stock of the bank will not be for the benefit of stockholders and that, for such period, the bank's stock will have little, if any, value from the standpoint of the earnings of the bank and, accordingly, will not be marketable. It appears questionable, therefore, whether on such a basis the people of the community will retain confidence in the bank so as to enable it to maintain or increase its deposits in competition with other banking institutions. The Board feels that, in any case of a reorganization of a bank where the stockholders have done everything possible to discharge their obligation to the bank and to save the depositors from loss, the depositors are not equitably entitled to future earnings of the bank. However, there may be circumstances where the stockholders have not fully discharged their obligation and the depositors have already agreed to a plan of reorganization and accepted the obligation of the bank to conserve future net earnings for the benefit of depositors, until their claims are satisfied, which justify the execution of agreements by stockholders to turn over any dividends to deferred certificate holders, in lieu of the agreement of the bank to conserve earnings for the benefit of such certificate holders.

As you know, the State Bank of Collinsville, Collinsville, Illinois, is now a member of the Federal Reserve System, and the question involved in that case is whether the Secretary of the Treasury should issue a license to that bank to reopen as a member bank. This question is not one for the determination of the Federal Reserve Board, but, since it is understood that the liability of the bank on the proposed deferred certificates would substantially impair, if not entirely eliminate, its capital, it would not seem advisable to reorganize and reopen this member bank until its capital is restored. It is suggested that, in the case of the State Bank of Collinsville and similar cases, the procedure outlined in the first paragraph commencing on page five of this letter be followed prior to the reopening of the bank in order to eliminate the liability of the bank on deferred certificates and the consequent impairment if not entire elimination of its capital. Of course, as you know, this bank might voluntarily withdraw from membership in the Federal Reserve System and reopen as a nonmember State bank and, after its liability on the deferred certificates has been eliminated, apply for readmission to the Federal

Reserve System. The Board feels, however, that it would be more desirable for such elimination of liability to be accomplished prior to the reopening of the bank.

The Board fully appreciates the efforts you are making to effect sound reorganizations of banks in your State, and it desires to be of all possible assistance to you in this connection. Accordingly, if there is any further information you desire or anything that properly can be done by the Board to be of assistance, it will be appreciated if you will advise the Board.

Very truly yours,

(Signed) E. R. Black

E. R. Black,
Governor.

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OUR NATIONAL PROBLEM

Our immediate, great national problem is to restore and maintain the value of "Money" and regulate its future value - as directed by the Constitution of the United States. It can be done alone by the Congress of the United States, under the Constitution.

Our money is the medium of exchange in commerce. Such money consists of coin and paper, with which about 8% of our business is transacted, and checks based on bank credit, with which over 92% of our business is done.

The value or purchasing power of money absolutely and positively depends upon the supply of money available to the general public. Money is best referred to as a "means of payment". It is "the means of payment" for purchases, for debts, for interest on debts, for taxes, for freight, and all fixed charges involved in the cost of living and in the transaction of business.

When the increased supply of money or "the means of payment" is not accompanied by a corresponding rise in the volume of commodities produced or property existing - it necessarily results in diminishing the value of such money and increasing the market price of such commodities, as well as corporate stocks and other forms of property.

In the boom market preceding October, 1929, there was an increase of bank credits for speculation in corporate securities - of approximately ELEVEN BILLION DOLLARS, which appeared largely as brokers' loans. This expansion of money or bank credit caused the purchasing power of money, in terms of such corporate securities, to come down and the market price of such corporate securities to go up.

As this bank expansion was not for the primary purpose of buying commodities, it did not greatly affect the commodity market - and for the further reason that the volume of commodities was greatly increased thru the active employment of the people under the stimulation in part of the bull stock-market. When it became generally accepted that corporate securities were selling at a price at which they could not possibly pay reasonable returns on the investment, the bull market collapsed - purchasers in some cases selling for prudential reasons, others being compelled to sell by the calling of loans secured by margins.

The result of this collapse was that the 11 billion dollars of money which had been expanded for the purchase on margin of corporate securities was entirely withdrawn within three or four years. Corporate stocks were a drug on the market, with no money available to the public with which to buy such stocks - altho the stocks were essentially, in many cases, worth several times the market price.

The shrinkage of bank loans exceeded 15 billions by December 31, 1933, and the shrinkage of bank deposits was 13½ billions. Since then, 5 billions more of bank deposits have been frozen by the closing of banks. The shrinkage of check-money was approximately one-half from 1929, when the volume of checks paid by banks was 1200 billions, to 1932, when the volume of checks paid by the banks was about 600 billions.

This shrinkage of the supply of money, while the demand for money became increasingly urgent, caused a sudden increase in the purchasing power of money, so that money increased in value anywhere from normal up to 1000% in terms of corporate securities and in terms of real-estate - resulting in widespread bankruptcy, not only of debtors but of creditors who were ruined by the collapse. The creditor was often ruined by the inability of his debtor to pay.

The whole nation was misled by a speculative mania, because there was no sound, adequate opinion in the United States with regard to the national advantage and ability "to regulate the value of money". It is true our great and wise constitution of the United States authorized Congress to do this --- but it never had been done.

In order to have it done, it was necessary to have an informed public opinion. It took a great national calamity to direct public opinion to the urgency and value of this constitutional requirement. It took the World War and the economic consequences of that War to impress upon the world the importance of stabilizing the value of money - the supreme importance of preventing the evils of uncontrolled expansion and uncontrolled contraction.

Many patriotic men have studied and attempted to solve this problem. The means, at last, has been discovered as to how this can be done.

The first vital principle to be understood is that -

(1) The value of money depends absolutely and positively upon the available supply of money - that is, of credit as well as of currency - to the general public.

(2) The national government alone has the constitutional, legislative power and the financial means with which to "regulate the value of money".

(3) The general commodity index - representing the value of all the products of labor in terms of money - is the most stable, existing index of the value of money as well as of commodities.

(4) The value or the purchasing power of money and the value of commodities representing all human labor is one and the same thing, and a standard was fixed by the Department of Labor at 100 for the year 1926.

When the supply of money expands in relation to commodities and labor - the value of money goes down and the value of commodities (the products of labor) and labor go up. When money contracts, the value of money goes up and the value of commodities goes down.

When the dollar index went to 60 in May, 1920, the commodity index went to 166; when the dollar index in February, 1933 went to 166, the commodity index went to 60. When the value and the purchasing power of money is stabilized at or about 100, it means that the general commodity index representing labor and the products of labor will be stabilized at or about 100.

Stability alone in the purchasing power of money and the commodity values will prevent the future evils of so-called "inflation" and "deflation" - or the evils of over-expansion or over-contraction.

The United States Government has the financial power to do this - either directly thru the Treasury or indirectly thru the Federal reserve banks; either using the facilities of the banks by voluntary cooperation or using these banks as Governmental agencies.

When money is suffering from excessive contraction, it should be expanded; when money is suffering from excessive expansion, it should be contracted. The one is as easy to do as the other.

To expand money, the Government should cause the purchase of bonds by the Reserve banks or by its own Treasury with paper money. To contract money, the Government should sell the bonds which had been bought and take up the paper money, for retirement, with which such bonds had been bought.

Thru the Federal reserve banks, the same thing could accomplished, by the Federal reserve banks buying bonds with Federal reserve credit in an amount sufficient to accomplish the desired result; and when it became desirable to prevent the value of money going below par, to sell such bonds in an amount sufficient and contract credit or money.

If the Federal reserve banks bought 3 billions of bonds, it would establish a surplus reserve of the member banks in the same amount; and the member banks, on an average, could expand their own loans (for productive purposes) ten times as much (against adequate assets), with safety. In this manner, money would be abundantly supplied to restore its purchasing power to normal. When the purchasing power of money is restored to normal, the value of all forms of property will be restored to normal - including real-estate, commodity values, and corporate securities.

Table 19 of "Statistics of Income", compiled by the Bureau of Internal Revenue, giving the resources and liabilities of 450,000 corporations in 1929, showed that they represented property values of 335 billions. The actual value of these stocks and bonds should be restored to normal based upon their normal income producing power. When the value of property and money is stabilized - normal consumption, production, and employment will automatically follow.

The National Recovery Act establishing fair competition in the United States, reasonable hours of labor, reasonable compensation for labor, putting an end to unfair and corrupt trade practices, and stimulating the re-employment of people by dividing the work to be done thru shorter hours - is a constructive conception of great importance. Its success, however, will depend very largely, indeed, upon restoring the value of property and the purchasing power of money to normal.

Unless this is done, the hopes of the American people for prompt recovery from the depression may meet with agonizing disappointment.

There is no problem in America of such vital importance as the duty imposed by the Constitution of the United States upon Congress by Article 1, Section 8, "to regulate the value of money".

The power has now been delegated by Congress and the direct official responsibility rests upon Franklin D. Roosevelt. The responsibility is great; and if it is adequately met, his name will go down in history as our greatest President.

9/6/33
ROBERT L. OWEN