The Papers of Charles Hamlin (mss24661)

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Scrap Book - Volume 247
FRBoard Members

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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

mrc.

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 of Mr. Hamlin's scrap book and placed in the Board's files:

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  Confidential Memoranda - Advances to member banks under Section 10(b) of F.R. Act.

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  Business and Credit Developments - Confidential.

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  Proposal to buy gold at higher prices. (Memorandum)

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  Memorandum re monetary policy.

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  Confidential statement submitted by Gov. Black at meeting of Board on October 31, 1933.

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  Correspondence between F.R.Bk. of Boston and Board re decision not to participate in System purchases of Gov. securities.

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  Memo to Mr. Hamlin from Mr. Goldenweiser re Sen. Owen's letter to President recommending currency be issued in order to bring about recovery.

Page 71
  Memorandum of Open Market Policy.

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  Memo re Federal Advisory Council. Typed statement on functions of Federal Advisory Council)

Pages 103 & 105
  Questions submitted by F.R. Board to be considered by Federal Advisory Council and reply thereto.

Page 123
  Memo for F.R. Board re National City Bank of New York.

Mr Hamlin

CONFIDENTIAL MEMORANDA

I. ADVANCES* TO MEMBER BANKS UNDER SECTION 10 (b) OF THE F. R. ACT

Federal Reserve Bank	February 27, 1932 to Nov. 15, 1933			Week ending November 15, 1933	
	Advanced to date	Paid to date	Outstanding	Advanced during week	Paid during week
Boston	$4,062,000	$3,987,000	$75,000	$75,000	--
New York	38,574,000	27,174,000	11,400,000	505,000	$70,000
Philadelphia	13,117,000	11,583,000	1,534,000	44,000	7,000
Cleveland#	35,796,000	34,281,000	1,515,000	--	30,000
Richmond	4,227,000	3,403,000	824,000	8,000	4,000
Atlanta	21,795,000	19,885,000	1,910,000	200,000	4,000
Chicago	13,000,000	10,324,000	2,676,000	--	6,000
St. Louis	1,399,000	1,179,000	220,000	15,000	28,000
Minneapolis	456,000	393,000	63,000	--	30,000
Kansas City	9,143,000	9,138,000	5,000	--	--
Dallas	998,000	998,000	--	--	50,000
San Francisco	146,369,000	146,331,000	38,000	--	--
Total	288,936,000	268,676,000	20,260,000	847,000	229,000

II. ADVANCES* TO NONMEMBER BANKS UNDER SECTION 404 OF ACT OF MARCH 24, 1933

Federal Reserve Bank	March 24, 1933 to Nov. 15, 1933			Week ending November 15, 1933	
	Advanced to date	Paid to date	Outstanding	Advanced during week	Paid during week
New York	$500,000	$500,000	--	--	--
Chicago	10,000	10,000	--	--	--
Minneapolis	50,000	38,000	$12,000	--	--
Total	560,000	548,000	12,000	--	--

III. BILLS DISCOUNTED* BY F. R. BANKS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

Federal Reserve Bank	July 21, 1932 to November 15, 1933				Week ending November 15, 1933	
	Discounted bills	Paid to date	Outstanding: Total	Outstanding: Secured by U.S.Govt. obligations	Discounted during week	Paid during week
Boston	$25,000	$25,000	--	--	--	--
New York	1,853,000	1,502,000	$351,000	--	--	$2,000
Philadelphia	203,000	203,000	**	**	--	--
Cleveland	158,000	148,000	10,000	$10,000	--	--
Richmond	41,000	14,000	27,000	27,000	--	--
Atlanta	558,000	554,000	4,000	4,000	--	--
Chicago	278,000	278,000	--	--	--	--
St. Louis	67,000	53,000	14,000	14,000	--	1,000
Minneapolis	151,000	151,000	--	--	--	--
Kansas City	200,000	195,000	5,000	--	--	--
Dallas	--	--	--	--	--	--
San Francisco	1,211,000	1,183,000	28,000	28,000	--	--
Total	4,745,000	4,306,000	439,000	83,000	--	3,000

DIVISION OF BANK OPERATIONS
NOVEMBER 17, 1933

*Exclusive of renewals.
**Less than $500.
#Figures revised.

(B-147 - B-150)
(Revised Aug. 1933)

VOLUME 247
PAGE 2

Mr. Hamlin

See Bd

CONFIDENTIAL

October 9, 1933
R. & S.
Cr. 5

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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Page 11

P 11

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.

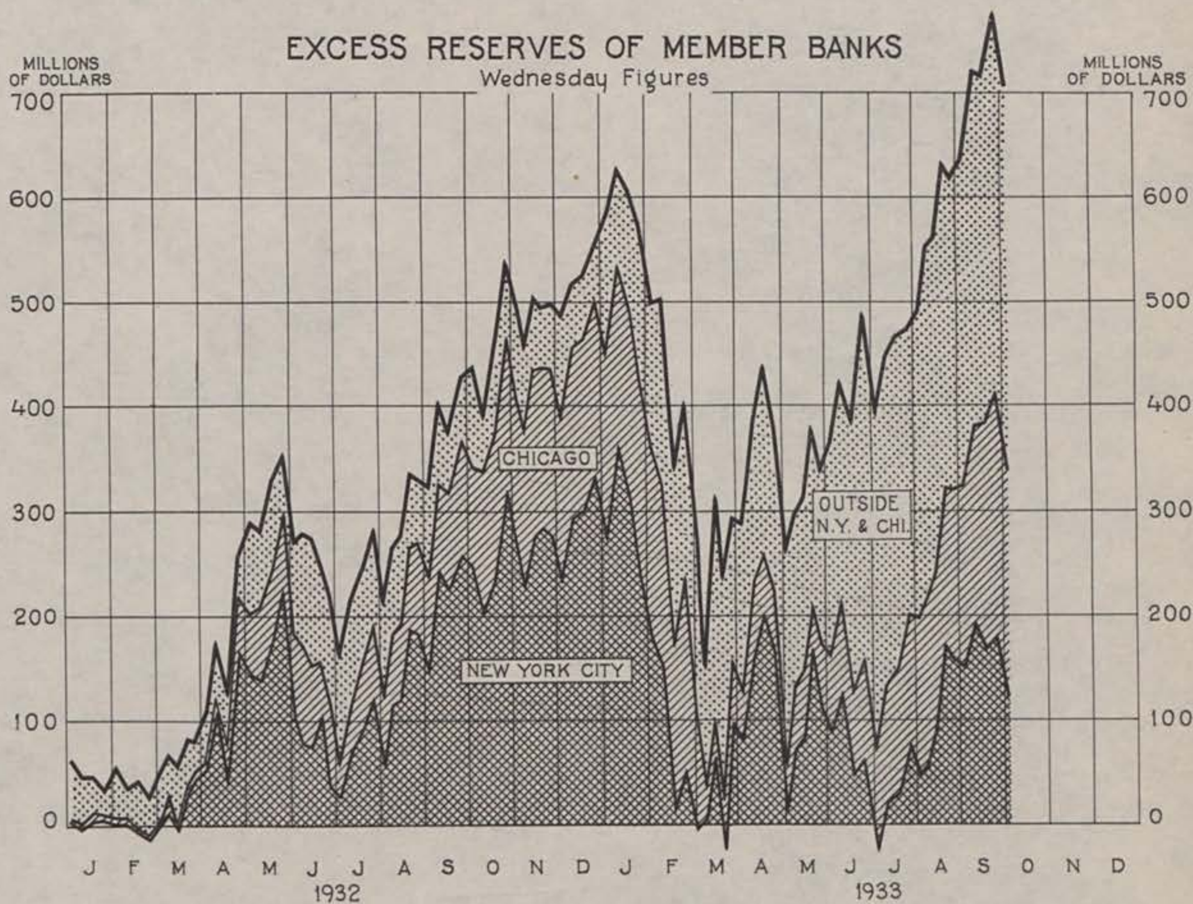
Volume of bank credit has shown little change since mid-summer, and the rate at which the oustanding credit was being used, as reflected in rapidity of turnover of deposits, has recently declined. Return of currency from hoards has continued at a moderate rate, the amount of currency in hoards being 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.


EXCESS RESERVES OF MEMBER BANKS
Wednesday Figures
MILLIONS OF DOLLARS
700
600
500
400
300
200
100
0
CHICAGO
OUTSIDE N.Y. & CHI.
NEW YORK CITY
J F M A M J J A S O N D J F M A M J J A S O N D
1932
1933

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	Per cent change 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 1/	57	69	p76	+ 21	+ 33
Factory payrolls 1/	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 continued 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 by 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.

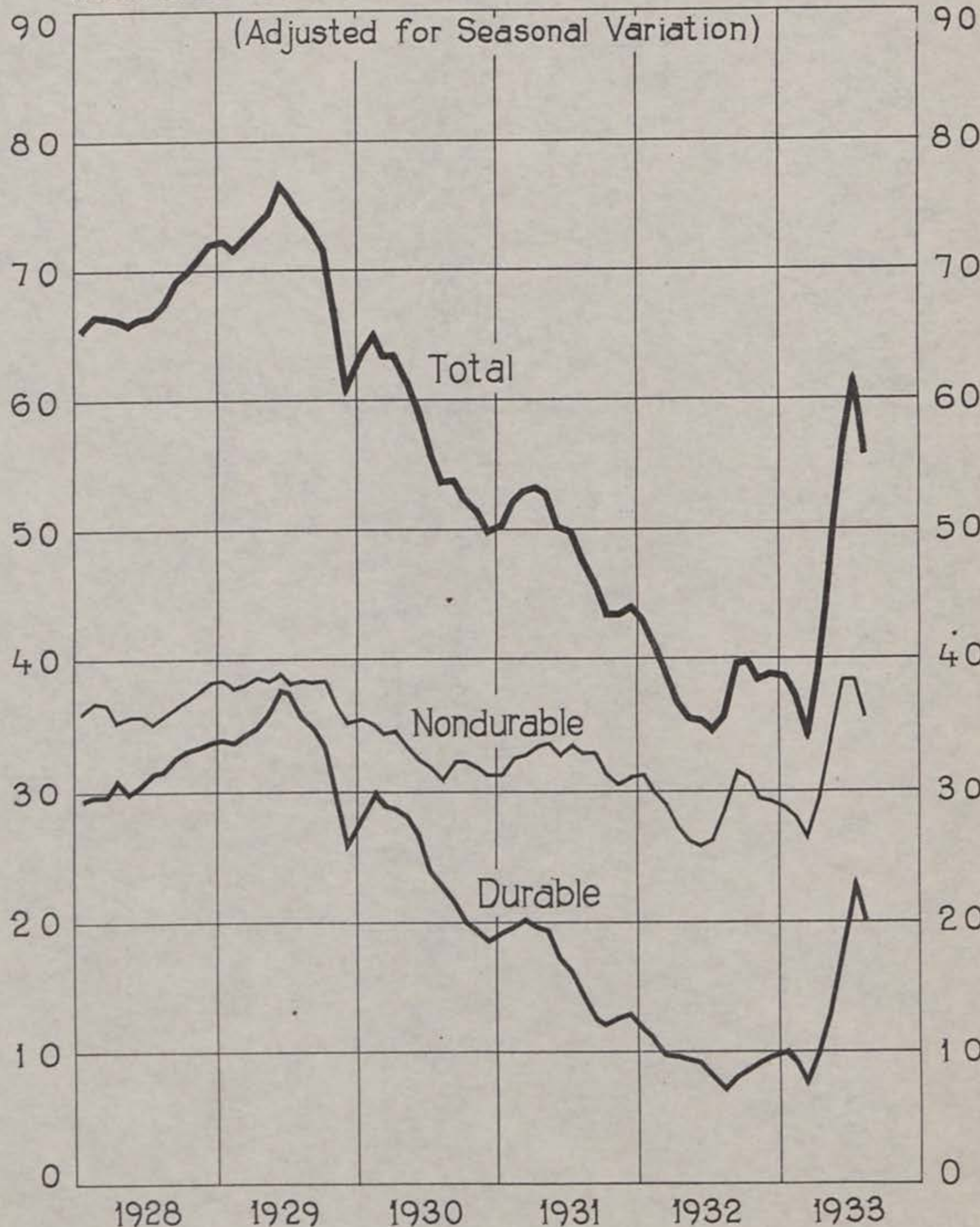
For a number of industries there was a marked decline in output in the month in which a code or processing tax became effective or in the month immediately following. This is true of iron and steel, wool, rayon, flour, and lumber. In a few of these industries for which weekly figures are available the 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.

<u>Durable and nondurable goods</u>

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 producing 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.

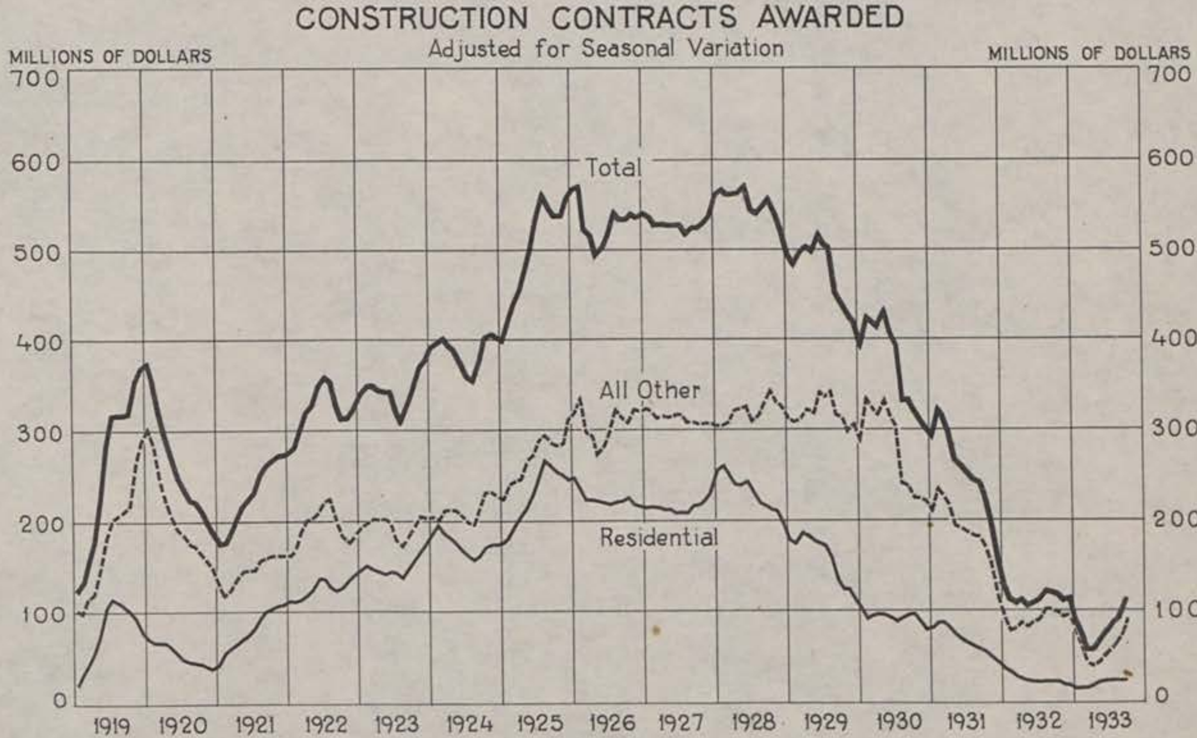
Construction

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.



3 months moving average; 37 Eastern States; F.W. Dodge Data

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.

<u>Income of farmers</u>

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.

<u>Retail trade</u>

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	1.0
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, the increase in activity 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

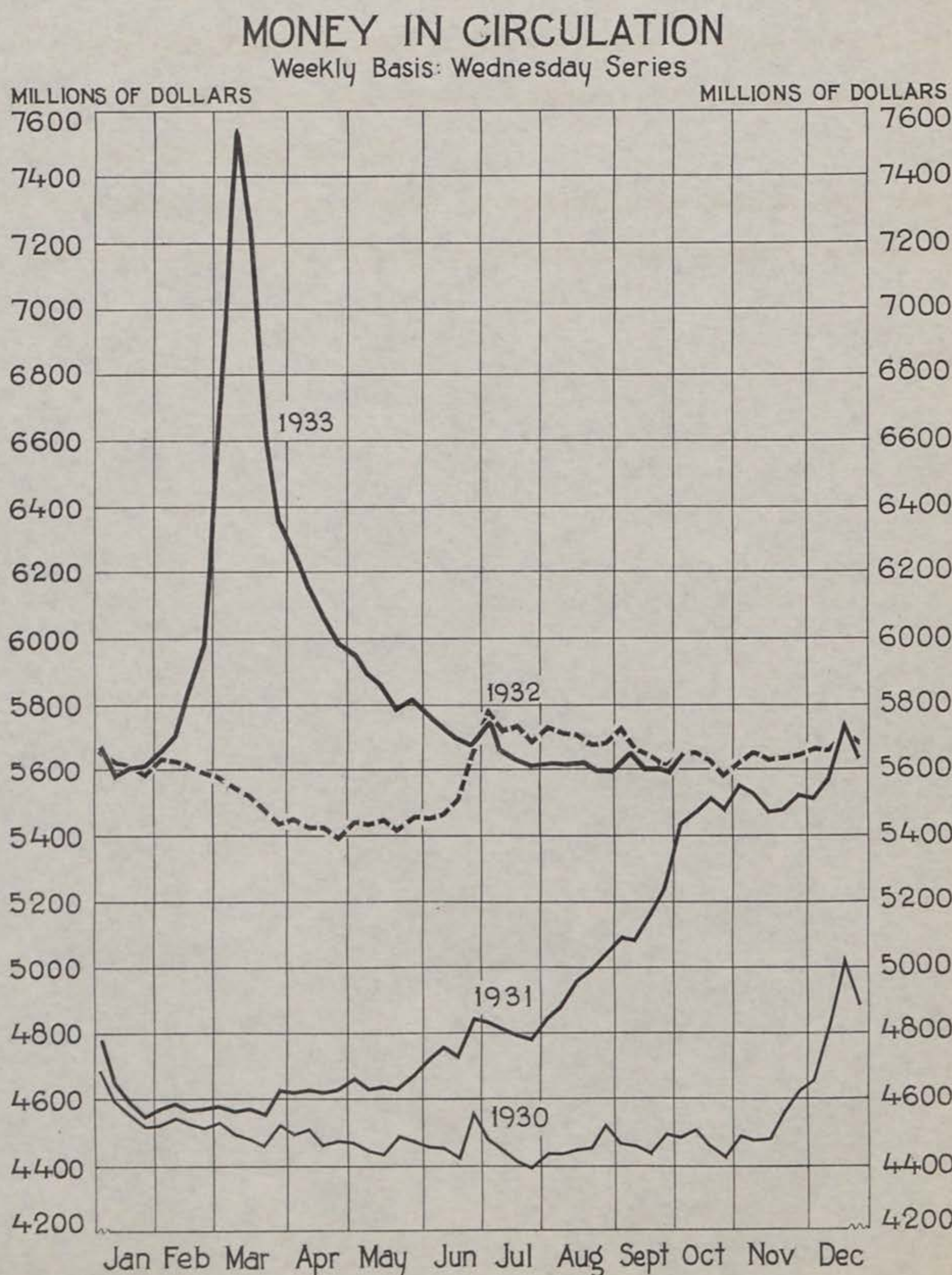
The Comptroller of the Currency has announced approval of reorganization plans for 375 national banks with $400,000,000 of deposits.

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
MILLIONS OF DOLLARS
MILLIONS OF DOLLARS
7600
7400
7200
7000
6800
6600
6400
6200
6000
5800
5600
5400
5200
5000
4800
4600
4400
4200
1933
1932
1931
1930
Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec

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.

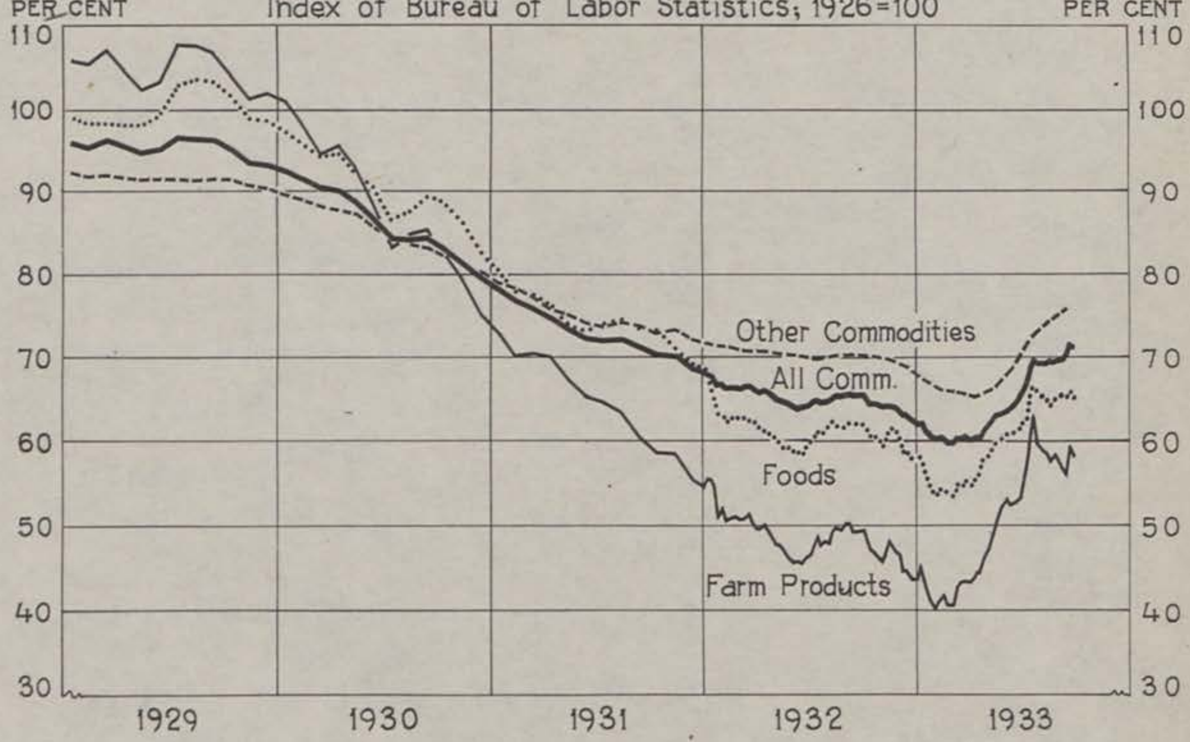
In other countries there is evidence that the hoarding of gold was checked at the beginning of July. Monetary gold in Europe outside of reported central bank holdings, after increasing by $500,000,000 during the first half of the year, decreased somewhat in the third quarter.

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

Index of Bureau of Labor Statistics; 1926=100



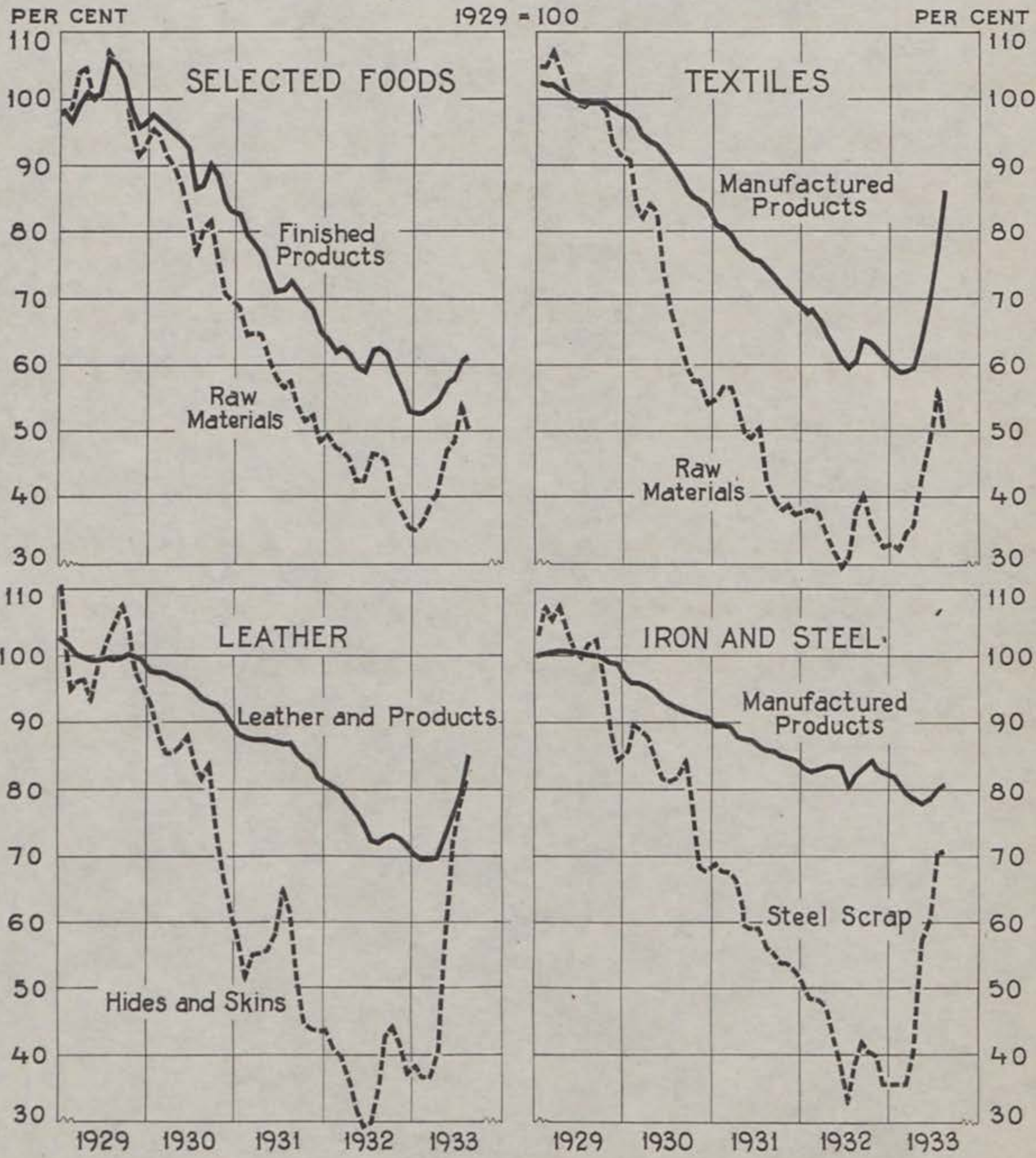
Price advances in farm products and other staple commodities in the spring reflected largely the depreciation of the dollar on the exchanges and speculative anticipation of further depreciation. In mid-summer prices of world commodities declined and ceased to follow closely the movement of dollar exchange. 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
Wholesale prices			
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
Farm prices, U.S.B.A.E. (weekly; 1910-1914=100)			
Received by farmers	49	76	71*
Paid by farmers	100	107	116*
Retail prices			
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

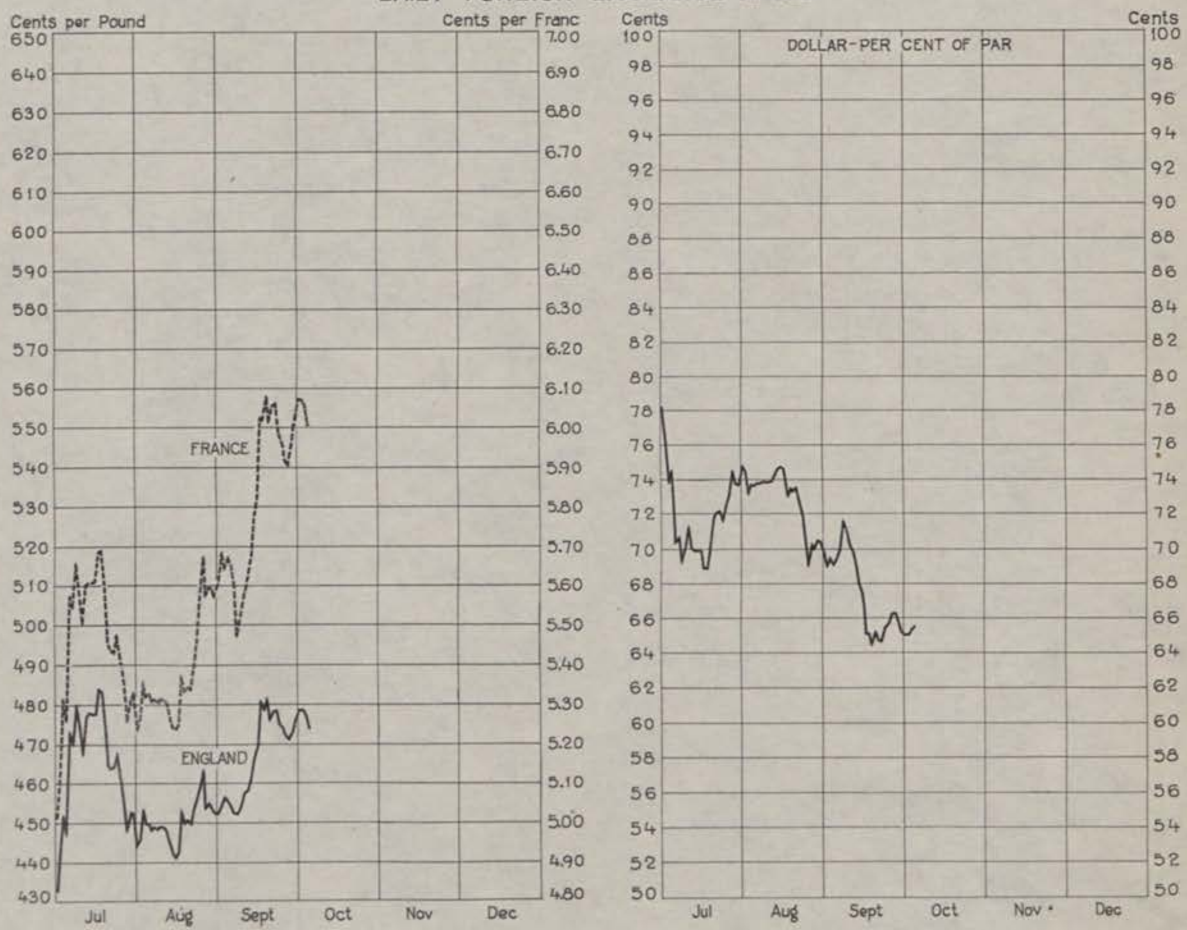
* Confidential.

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.

CONFIDENTIAL October 6, 1933

DEVALUATION

Definition

Devaluation of the dollar means a reduction in the gold content of the dollar from its present mint parity of 23.22 grains of fine gold and a consequent increase in the price of gold from the statutory figure of $20.67 an ounce. It would seem that devaluation in order to serve a useful purpose must be accompanied by an undertaking by the Treasury and the Federal reserve banks not only to buy but also to sell gold at the new price and to permit the export of gold for legitimate purposes. In other words, it would constitute a return to the gold standard with a lower gold content of the dollar. Present restrictions against hoarding may, of course, remain in force and a policy of abolishing the circulation of gold coin and gold certificates may be adopted.

There is a plan, sponsored by the Committee for the Nation, to establish a free gold market in this country in the sense of an undertaking by the Treasury to buy gold at a fixed price, but not to sell it. This, in my opinion, would not constitute devaluation and would not result in stabilization of the value of the dollar; gold under this arrangement could not fall below the price set by the Treasury, but there would be no obstacle against its rising indefinitely; the dollar, therefore, could not rise but there would be nothing to prevent its decline to any level. The plan, therefore, would not eliminate the element of uncertainty in the monetary field, which is an important obstacle to the revival of the capital market, and consequently to business recovery. The establishment of a free gold market on this basis would give no assurance that the price would not be changed again at any time.

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In its effect on foreign countries, on the other hand, the undertaking to buy gold at a high fixed price would result in an inflow of gold from abroad and would consequently tend to disturb conditions in foreign countries.

Objects

There are three purposes for the accomplishment of which devaluation may be undertaken:

(1) To raise prices and reduce debts; (2) to make a profit for the Treasury and thus improve the fiscal position; and (3) to remove uncertainty.

1. Devaluation for advance in prices
Would prices rise?

The question as to whether devaluation would cause prices to advance is a controversial one. Prices are influenced by many conditions other than the exchange value of the dollar. The rise in prices since last April, in so far as it has been due to our suspension of gold payments, has reflected in part exchange depreciation due to flight of capital and in part commodity purchases representing a flight from money. It is probable that, in the absence of countervailing action by foreign countries, there would be a tendency for our general price level gradually to rise sufficiently to offset the decline in the dollar. Maladjustment of price relationships between different groups of commodities would not be corrected in the process.

Foreign countries, however, would undoubtedly feel the necessity of protecting themselves against imports from this country through equivalent devaluations of their currencies or through tariffs, quotas, or other forms of discrimination. These measures might completely neutralize the effects of devaluation on our prices. While these adjustments to conditions produced by devaluing the dollar are in process, conditions abroad would be disorganized, and if devaluation be undertaken at a point considerably lower than is justified by the relative price levels here and abroad, then the countries now on the gold standard would probably either be forced off that standard through loss of trade and gold or would have to revalue their currencies to meet the new conditions. The effect on world prices might be to depress them and this would have an influence on our prices as well.

Devaluation for advance in prices

Level of devaluation

It would seem that there are three conceivable levels to which one could devalue. First, the present exchange value of the dollar, involving a devaluation by about one third; second, a devaluation of 50 per cent, the maximum authorized by law; and third, devaluation to a level sufficient to offset the actual increase in American prices above world prices. Theoretically, the latter course would be the most advisable because it would place the dollar at a level that it could maintain. This course would not cause international disturbances, because, while foreigners could buy more dollars with their currencies than they could at par, they could not buy more goods with these dollars than they could before devaluation. In other words, this method would be placing the dollar at its purchasing power parity or at its natural level in relation to foreign currencies and foreign prices.

This course, however, is beset with many technical difficulties. It raises the question as to what prices to consider. If we consider the prices of only those commodities that enter into the world market, then the devaluation would be to about the present exchange value of the dollar, or even lower. If we relate it to the general level of prices, as computed by Snyder, which includes prices not only of commodities, but also of services, securities, and real estate, then it would involve a reduction of the dollar by only a small percentage. Changes in different indexes of prices and in different groups of commodities are shown in the attached table. It would be difficult to agree on the composition of the price index on which to base the devaluation, and even if a reasonable basis were found, there would still be the question of the effect of devaluation on those commodities that have advanced more than the average, including such leading commodities as wheat and cotton, and the effect on the movement of capital, which was principally responsible for the decline in the dollar, and which might have a more important bearing on the balance of payments in the immediate future than the movement of commodities. In view of these difficulties and uncertainties and the fact that there would be controversies and no clear understanding, it would seem inadvisable to attempt to determine the level of devaluation in this manner.

To devalue to the maximum extent permitted by law, that is, to cut the dollar in two, would have the advantage of using up the President's power in this respect and thus removing uncertainty. On the other hand, to devalue the dollar by 50 per cent would be devaluing it to a level grossly out of line with any reasonable measure of its true value. While our price level has advanced on the basis of wholesale prices by 20 per cent, and that of England and France by not more than 5 per cent, this would indicate a depreciation of the dollar by only 13 per cent. A devaluation by 50 per cent would make the United States a bargain counter, and if no countervailing measures were undertaken by foreign countries, would result in a large increase of exports from this country and a decline in imports. This situation, together with the return flow of capital to this country, would subject the world to a heavy drain of gold and would place the United States in an unfair competitive position in the world commodity markets. It would be taken as a signal for competitive devaluation. England would not be able to return to the gold standard unless she devalued to an extent comparable to that of the United States. All other countries off gold would follow suit, and the countries that are still on gold would probably have to reconsider and follow a similar course. It is certain that devaluation by 50 per cent would cause more international disturbances than any of the other alternatives under consideration.

If immediate devaluation be determined upon, it would seem best to adopt a level approximately comparable to the actual exchange value of the dollar, possibly an average over the past few weeks or months. In other words, to have devaluation of from 30 to 35 per cent. Such a devaluation would have the advantage of not changing the value of the dollar from its present level. It would not cause a serious decline in the prices of international commodities and, in so far as it is not offset by comparable reductions in the values of foreign currencies, might exert a gradual influence towards a rise in the prices of such commodities as have not had a corresponding advance. While it would differ from more drastic devaluation only in degree, and not in principle, what we are confronted with is a condition, not a theory, and a choice of the lesser of several evils is what we are called upon to make.

Of the three alternative levels for immediate devaluation, therefore, the present value of the dollar presents fewer objections and more advantages.

2. Devaluation for relief of debtors

The effect of devaluation on our prices is, therefore, uncertain. Equally uncertain are its effects on the burden of debt. Debt reduction through devaluation is a corollary of the advance in prices. There is nothing automatic about the process. A debtor will have to pay as many dollars for his debt after as before devaluation, and only if the price of his product advances as the result of devaluation will his debt burden be made lighter. In fact, even a price advance does not assure a debtor of relief. What he requires is a larger net income. Net income is the resultant of the price of goods sold, times their volume, less the price of materials bought, times their volume. In other words, debt paying power depends not alone on prices of products to be sold, but in addition on volume of business, prices of materials to be bought, and volume of materials to be bought. A farmer who sells wheat and has a good crop benefits by a rise in the price of wheat, provided the cost of his seed and labor and machinery has not advanced enough to absorb the difference. In a one-crop economy that is likely to be the case. A dairy farmer, on the other hand, is likely to suffer. The price of milk and butter is not as likely to rise in response to the exchange value of the dollar because these commodities do not enter substantially into world trade. On the other hand, the price of his materials, chiefly feed, is likely to go up with grains, so that he is likely to find himself in a less advantageous position for paying debts than he was before.

If the object of devaluation, therefore, is to raise prices and to lighten the burden of debt, it is uncertain whether the objective will be attained.

3. Devaluation for profit

If the object of devaluation is to obtain a profit for the Treasury and thus to help its financing problem, the purpose will be accomplished. A devaluation by 50 per cent would result in a profit of approximately $4,000,000,000, most of which, however, would in the first instance be to the credit of the Federal reserve banks. The legal, constitutional, and practical means of passing that profit over to the Treasury are discussed elsewhere. There is no doubt about the fact that the fiscal position of the Government would be helped by the acquisition of these funds. It is the purpose for which voluntary devaluations in the past were undertaken by kings at a time when world economy was much simpler.

If there were nothing more convincing to be said for devaluation, however, than that it would result in a huge profit for the Treasury, it would be difficult to convince the people of the right of the Government to pursue this course. A profit to the Government would be an incidental advantage of devaluation, but it can hardly be considered an adequate reason for undertaking it, particularly since the financing of our Government presents no great difficulties, notwithstanding the heavy demands made upon it.

4. Devaluation for stability

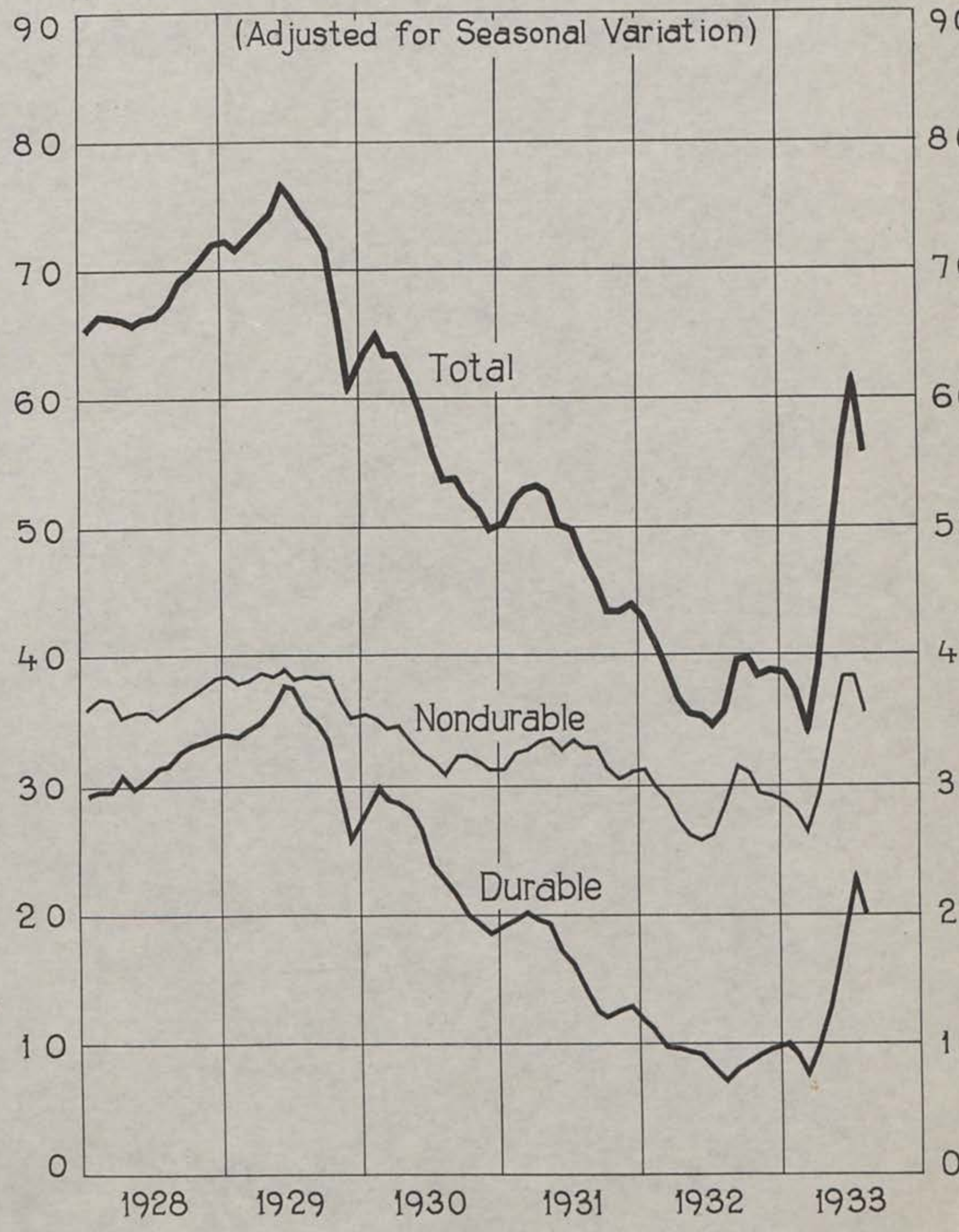
The most convincing reason for undertaking devaluation is that it would tend to bring us out of the condition of uncertainty in which we are now. This uncertainty is unquestionably resulting in a flight of capital from this country. It is holding back enterprise because no one is willing to undertake long-time commitments; it is contributing to the general confusion which retards recovery. A return to a stable monetary unit is not only desirable but essential for sustained recovery. Recovery depends on the restoration of activity in industries producing durable goods. These industries employ a large part of our labor and it is the decline in their activity that has been the chief element in the depression. This is illustrated by the chart.

These activities, particularly the construction and railroad equipment industries, require the employment of new capital. Uncertainties about the value of the dollar, however, have destroyed the capital market. American capital has fled abroad and foreign capital has been withdrawn from this country. It is to this flight of capital that the depreciation of the dollar on the exchanges is largely due. This depreciation has had a favorable immediate effect on dollar prices of some American commodities--- but the flight of capital that has caused it has dried up the capital market and has delayed the recovery of business activity, employment, and wage

MANUFACTURES - DURABLE AND NONDURABLE

AGGREGATE PRODUCTION IN COMPARABLE PHYSICAL UNITS

(Adjusted for Seasonal Variation)



"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.

payments. Purchasing power of consumers has, therefore, been held down and in turn has retarded the rise of prices of consumers' goods. Restoration of confidence in our currency would result in a return of capital to this country, a reestablishment of a capital market, a strong influence toward resumption of activity in the durable goods industries and a consequent sustained resumption of business activity. For this reason, devaluation as a step toward monetary stability is desirable, even at the risk of devaluing at a wrong level.

The question may be raised whether the best way to restore monetary stability would not be to return to gold at the old parity. To do so immediately, however, would seem to be impracticable. It would cause a collapse in the prices of those world commodities that are traded in on organized exchanges, particularly wheat and cotton; it would also tend to reduce prices of other commodities that have advanced more in the United States than abroad, though less considerably than the world commodities. A return to gold at the old parity seems feasible only on the basis discussed below, if the dollar is permitted gradually to find its own level, and if the level on which it settles turns out to be at or near the mint value of $20.67 per ounce.

5. Timing devaluation

The wise course to pursue from an economic viewpoint would be to issue a statement that would indicate that nothing will be done further to diminish the value of the dollar and that we would return to gold as soon as a stable level has in practice been determined. In the meantime, we will pursue the other lines of endeavor towards business recovery. Such a plan would have the advantage of removing much of the prevailing uncertainty and thus of overcoming many of the obstacles in the way of long-time commitments and capital formation. At the same time, it would make it possible to delay the final move until experience will have demonstrated that the level to which the dollar will go is in accordance with the international forces that play upon it. This level may turn out to be at the old parity or at some percentage of devaluation. This procedure would remove from the picture to a large extent the influence of large-scale short-term capital movements. The capital in flight would have returned to this country and would have exerted its influence on the dollar before it was stabilized.

The main argument against this course is that the people of the United States having had several severe shocks would probably require firm and conclusive action before they will regain confidence in the future. Definite action by the President would also diminish political pressure for other courses of action, because once definite action will have been taken and its finality announced, the number of people in this country who would advocate a reopening of the question and a return to uncertainty would be greatly diminished. This constitutes a powerful reason for prompt action that would definitely assure the people of monetary stability.

6. Profits of devaluation

The profits of devaluation should go to the Government. If there is no way by which the Treasury can compel us to give them up, as I believe there is not, the Federal reserve banks should make a voluntary agreement to that effect.

There are many reasons why the profits should go to the Government. In the first place, it is right, because it is a profit from a purely monetary measure. The Federal reserve banks are agencies of the Government in monetary matters and should not profit by devaluation. It would be desirable, however, for the banks to obtain an assurance from the Government that in the unlikely event of a revaluation upward the losses will be absorbed by the Government, and also to take measures to protect themselves if devaluation should be declared unconstitutional. In the second place, the Federal reserve banks do not need the money. They have unlimited note issuing power and do not require additional funds. Their reserve position will be improved by the transaction, because their reserves and their liabilities will increase by the same amount and the reserve ratio, therefore, will be higher. The member banks, who are the owners of the Federal reserve banks, will suffer no loss because the safety of their deposits will not be affected and their ability to collect 6 per cent dividends will not be impaired, as the surplus will not diminish. The surplus, however, has recently been cut in two by the contribution to the deposit insurance corporation. A restoration of the surplus to its previous level would be in the interests of the country in view of the heavy responsibilities of the reserve banks.

In the third place, the Federal reserve could not afford to oppose the Treasury in court in this matter because the Government has it in its power to abolish the Federal reserve banks and more simply can secure the profits of devaluation by reimposing the franchise tax before devaluation takes place.

And in the fourth place, the Federal reserve banks could not afford to take the profits because that would constitute them a target for attack of such virulence that it is doubtful whether the system could survive. The only possible justification for devaluation is the general public good. If devaluation should result in profits to privately owned institutions like the reserve banks, this course of action would never be tolerated by the people of the United States.

I am taking it for granted that in taking the profit, the Treasury will leave the gold at the Federal reserve banks and simply take a book credit which it will expend. No other course is one to which the Federal reserve banks could agree, and I believe that there is no warrant in law by which the Treasury could force the Federal reserve banks to give up their gold. If the gold were taken over from the reserve banks, that would have a powerful effect in undermining the people's confidence in the Federal reserve system. Member banks might withdraw from the system or attempt to withdraw their deposits. The country's entire credit and currency system would be subjected to a shock so severe that the consequences cannot be foretold. Furthermore, no useful purpose would be served by this procedure because the Treasury has no use for the gold.

7. Effect of devaluation on United States Government securities

Devaluation of the dollar will have no direct effect on the value of Government securities, since the securities are payable both as to interest and principal in paper money. If devaluation will affect the price of Government bonds it will be indirectly through its effect on the confidence of the people in the Government. I believe, however, that devaluation would not shock the people's confidence in the public credit. Departure from gold and abrogation of the gold clause did not shock it. Government securities are the one kind of property that has stood up during the depression notwithstanding the large increase in the public debt and the abrogation of the Government's obligation to pay in gold. Devaluation and return to a stable monetary unit would strengthen the Government's credit because it would make investors more willing to buy fixed interest obligations.

In the end, however, the value of Government securities will depend on the ability of the Government to collect enough taxes to meet its expenditures and to begin to reduce its debt.

It should be mentioned that the value of Government securities, in so far as they represent investment without risk, reflects the cost of money, that is, the interest rate. If inflation gets under way and interest rates advance, Government securities will decline in value as they did in 1919 and 1920. Even though the prevalence of easy money conditions that would be the indirect result of devaluation, through the creation of a large volume of excess reserves, would tend to keep rates down, once inflation got under way, every effort would be made to tighten money rates, and that would have an adverse effect on the price of Government obligations.

8. Devaluation and inflation

As indicated in the discussion of the effect of devaluation on prices, a reduction in the gold content of the dollar would not necessarily result in immediate inflation, particularly if foreign countries should readjust their monetary units as they undoubtedly would. Devaluation, however, would result in the creation of conditions that would make it difficult to control an inflation when for any reason it got under way. The Government would undoubtedly spend the money resulting from the profits of devaluation either in the purchase of Government securities or in paying for its current obligations. In any case it would draw checks on its balances with the reserve banks and these checks being deposited with member banks would give these member banks additional balances in their reserve accounts. Devaluation of 50 per cent would, therefore, result in an increase of member bank reserve balances by about $3,800,000,000 and a devaluation of 33 per cent would result in additional excess reserves approximating $2,000,000,000. This large volume of excess reserves of member banks added to the existing volume would make it extremely difficult for the Federal reserve system to control inflation if it once developed and became active. The situation would be aggravated by the fact that there is a large amount of money that is now in hoards and would return when inflation developed. There is also the power of the national banks to issue an additional $700,000,000 of notes. Gold drawn from abroad by a cheap dollar would further aggravate this situation. The Federal reserve banks, therefore, would not be in a position to use their ordinary means of credit control in case an inflation should develop, because the banks would be out of debt and would have excess reserves of a magnitude that would make it impossible to put them in debt through the sale of Government securities, even if the Federal reserve banks were willing and able to dispose of their entire portfolio. To be sure, inflation would result in an increased demand for currency and would in the end bring about gold exports and these developments would tend in the long run to combat the inflation, but these normal forces that counteract inflation would in existing circumstances be slow to become of sufficient magnitude to diminish the member banks' reserves to reasonable levels. It becomes necessary, therefore, to make a careful study of measures that could be undertaken to hasten the absorption of these excess reserves. The Thomas amendment provides for authority to increase member bank reserve requirements and this could be done, although it would have the disadvantage of being a hardship on some banks that have no excess reserves. The Federal reserve banks could call on member banks for the difference between the subscribed and the paid-up capital. After July 1935, all national bank notes could be withdrawn from circulation. The Board's proposal for reserve requirements based on turnover as well as volume of deposits would be helpful. These are some of the possible devices, but others would have to be found if the ability of the Federal reserve banks to exert an influence towards controlling undue credit expansion is to be preserved.

9. Joint or separate action

The question has been raised whether it would be desirable for the United States to devalue independently or whether it would be best to do so in accordance with an agreement reached with foreign countries, particularly England and France. Theoretically, it would be more desirable to act in accordance with an agreement. It seems very unlikely, however, that it would be possible for the United States to arrive at an understanding of this sort with both France and England. No country would be willing to take dictation in regard to the level at which it is to stabilize its currency. A conference would be protracted and probably ineffective. It would seem best, therefore, for the United States either to proceed independently or preferably to undertake to reach an agreement with England alone. It seems much more possible to arrive at an understanding with England, coupled perhaps in some way with an arrangement about war debts. If these two countries could reach an understanding, the international repercussions of devaluation would be greatly reduced.

September 29, 1933

CHANGES IN PRICES FROM LOW LEVELS OF THE SPRING OF 1933

Indexes	Last spring's low (index)	Latest reported figure (index)	Per cent increase from low to latest date
WHOLESALE PRICES			
U. S. Bureau of Labor Statistics (weekly, 1926 = 100)			
All commodities	59.6	71.5	20.0
Farm products	40.2	59.3	1/47.5
Foods	53.4	65.9	1/23.4
Textiles	50.6	76.4	51.0
Metals	76.7	81.8	6.6
Building materials	69.6	82.3	18.2
6 international commodities (Feb. 1933 = 100, daily)	99.1	183.3	1/85.0
Moody's 15 sensitive staple commodities (Dec. 31, 1931 = 100, daily)	78.7	131.4	1/67.0
RETAIL PRICES			
Food (U.S.B.L.S. 1913 = 100, monthly)	90.4	106.7	18.0
Cost of living (N.I.C.B. 1923 = 100)	71.5	76.9	7.6
Department store prices, Fairchild's (Jan. 1931 = 100)	69.4	82.5	18.9
GENERAL PRICE LEVEL			
Carl Snyder's index (1913 = 100)	123	132	7.3

1/ At their high points last July these commodities showed the following increases from their lows:

	(In per cent)
Farm products	56.0
Foods	24.5
6 international commodities	107.7
Moody's 15 sensitive staple commodities	89.2

DEVALUATION IN FRANCE

Relation of Bank of France to the Government

The Bank of France is a private institution in the sense that its capital is supplied by the public and its shares are freely bought and sold on the Paris Bourse. The powers of shareholders, however, are strictly limited. Only the 200 largest shareholders have a vote. These meet once a year to receive reports and to elect members of the General Council which administers the bank. The Governor and two Deputy Governors, who are ex-officio members of the Council, are appointed for indefinite terms by the President of France on the proposal of the Finance Minister. Since the Governor's position is of dominating importance, the influence of the French Government with the bank is assured. The Government also shares in the profits of the bank, on a graduated scale in accordance with provisions in the bank's charter. This charter expires from time to time, and in renewing it the Government may effect more advantageous arrangements for itself -- such as a larger share in the profits or a reduction in interest on its debts to the bank. The charter last expired on December 31, 1920, and was renewed to December 31, 1945.

De facto stabilization of the franc by the Bank of France

The franc was stabilized by discretionary action of the Bank of France from December 23, 1926 to June 25, 1928, at which date legal devaluation occurred. The previous depreciation of the franc was the result of a series of budget deficits caused by war and reconstruction and financed by central bank credit. The credit of the Government was in bad condition and borrowing from the public was almost impossible. The formation of a coalition government under Poincaré in the middle of 1926 and the immediate measures adopted to balance the budget restored confidence and led to a rapid recovery of the franc. Under these circumstances the Bank of France at the end of the year undertook to stabilize the franc on the exchanges. It offered to buy or sell foreign currencies at approximately the rate of exchange that had been reached on the current movement in the market. Since the movement of funds to France continued inward, large amounts of foreign exchange were offered to the Bank of France, were purchased by it and paid for by Bank of France notes, and the foreign funds thus obtained were invested largely in sterling and dollar bills. These operations of the Bank of France were authorized by a law of August 7, 1926, which gave the bank authority to acquire an indefinite amount of foreign exchange and to issue an equivalent amount of notes against it. In its annual report for 1927 the bank stated that under an agreement with the Treasury, the "foreign bills thus invested continue to be entirely at the disposal of the bank. The Treasury assumes the risks of exchange resulting from their purchase, and the interest accruing from their investment is placed to account of the amortization fund of our advances to the State, while the bank is satisfied to collect from these special operations on behalf of the public welfare only such brokerage fees and commissions as are necessary to reimburse the bank for its expenses and work."

<u>Legal devaluation of the franc</u>

During the period of de facto stabilization of the franc at approximately $0.0392 the statutory gold content of the unit remained at its prewar level equivalent to $0.1930. It was obviously impossible to return to the gold standard on the basis of the statutory value of the franc without causing bankruptcy of the Government which would have had to repay in 20 cent francs money borrowed in much cheaper francs and without completely disorganizing the foreign trade of France which was adjusted to the lower level of the franc. Yet as the months passed the officials of the Bank of France came increasingly to feel that full legal return to the gold standard was necessary if the bank was not to be flooded with foreign exchange and the volume of currency in circulation expanded to dangerous levels. The only way to stop the bull speculation in the franc which was leading to these results was to stabilize the currency by law. This required devaluation of the franc from its old statutory rate to the current market price, and the imposition on the Bank of France of the obligation to pay out notes and redeem them at the new statutory rate.

The Bank of France desired the Government to take this step. It also desired to remove from its balance sheet a large volume of Government obligations which it had accumulated through direct lending to the Government, including a large claim against the French Government for advances to the defunct Russian Government, and certain theoretical holdings in England of gold which actually did not exist.

In order to bring about devaluation which alone could clear up this situation the Bank of France required the cooperation of the French Government.

To achieve the desired ends of great importance to both parties, the Bank of France and the Government signed an agreement on June 23, 1928. The agreement had reference to the new monetary law, which was actually adopted on June 25 and which effected a full return to the gold standard at a parity for the franc in line with its existing market price -- namely, \$0.0392. It was provided in the agreement that the franc value of the gold held by the bank should be marked up in accordance with the reduced gold content of the franc, and the foreign exchange of the bank, which had been carried at cost, was also uniformly marked up to the new parity. The sums created by the mark-up were applied toward wiping out various accounts on which the Government was indebted to the bank. The unreal account of gold abroad and the special advances to the Government were completely eliminated. The Treasury bonds held on account of French Government advances to the defunct Russian Government were converted into negotiable open-market bills.

The net result of these changes was that the quality of the stated assets of the bank was greatly improved. The bank made larger profits in the second half of 1928 than in the first half; and the dividend was raised. Under the circumstances the stockholders could hardly protest that the General Council had dissipated their assets, especially as the mark-up of the gold reserve was a statutory value which the Government, not the bank, had created.

SELECTED ITEMS FROM BANK OF FRANCE STATEMENTS

(In billions of francs)

June 21, 1928 statement		June 25, 1928 statement	
Actual gold reported in reserve ..	4.1	Gold	28.9
Gold, silver, and foreign exchange purchased under law of August 7, 1926	3.0	Foreign exchange	26.5
"Miscellaneous assets"	31.3	Miscellaneous assets	1.2
Gold unavailable abroad	1.4		
Special advances to Government ...	17.9		
Permanent " " " ...	.2	Permanent adv. to Gov't.	3.2
French Treasury bonds discounted for advances to foreign governments	5.9	Negotiable bonds of the Amortization Office	5.9
		Foreign exchange sold on repurchase agreement	9.8
Total assets	69.0	Total assets	82.3

Comment. -- On June 25 the statutory gold content of the franc was reduced to 20.3 percent of its amount on June 21. On the basis of the new franc the value of "actual gold reported in reserve" on June 21 was increased by 16.3 billion francs.

The items "gold, silver, and foreign exchange purchased under law of August 7, 1926" and "miscellaneous assets" were largely composed of gold and foreign exchange carried on the books at cost. These holdings were also revalued on the basis of the new franc. It is impossible to determine directly how much the revaluation added to these accounts; but assuming (1) that the physical gold and foreign exchange holdings of the Bank of France had not altered appreciably between June 21 and June 25, and (2) that the value of miscellaneous assets other than gold and foreign exchange was about the same on June 21 as on June 25, and (3) that the value of silver purchased from the public under the law of August 7, 1926 was not more than

500,000,000 new francs since purchases of silver were discontinued in the fall of 1926 -- making these three fairly reasonable assumptions, we get an indicated mark-up of gold and foreign exchange held outside the reserve of about 2,500,000,000 francs.

This sum, together with the mark-up on gold in the reserve, would give a total mark-up of 18,800,000,000 francs. This in turn just about covers the two accounts that were eliminated by application of the proceeds of the mark-up -- viz., "gold unavailable abroad" and "special advances to the Government," which together amounted to 19,300,000,000 francs.

The above analysis covers the first six items shown for the June 21 statement and the first three shown for the June 25 statement. In the June 25 statement the item "miscellaneous assets" contains no gold or foreign exchange. It is put in merely as an indication of the amount of what may have been genuine miscellaneous assets on June 21.

In addition to changes already analysed, "permanent advances to the Government" were increased by 3,000,000,000 francs in the statement of June 25; and "French Treasury bonds discounted for advances to foreign governments" (actually the defunct Russian Government) were converted into "negotiable bonds of the Amortization Office" and hence rendered available for open-market operations. The item "foreign exchange sold on repurchase agreement" was also added to the June 25 statement. The Bank of France had been conducting operations of this type for months; but they had not previously been reported on the balance sheet. However, even without this new item added by a change in bookkeeping practice, total assets of the Bank of France were larger on June 25 than on June 21.

Other changes in the bank's balance sheet between June 21 and June 25 were of little interest.

BANK OF ENGLAND AND DEVALUATION OF THE POUND

Profits of devaluation

The pound was not devalued in 1925 when England returned to the gold standard after the war; nor has it been devalued during the recent period of depreciation. Undoubtedly, however, when England returns to the gold standard again, the legal gold content of the pound sterling will be reduced. Since practically all the gold held by the Bank of England is held in the Issue Department and all the profits of the Issue Department accrue to the Government, the mark-up on the gold holdings of the bank incidental to devaluation of the pound will automatically be credited to Government account. There is a possibility that the actual transfer may not occur until the end of the fiscal year, in which case the surplus of the Bank of England would presumably be credited in the interval. When the proceeds of the mark-up are transferred to the Government, they will be credited in the first instance to the Government account at the bank, but will probably be used to retire Government securities held by the bank. If the Government does not retire the securities directly, the bank will be in a position to sell them in order to prevent the market's being flooded with funds as the Government draws upon its account.

(723)

See [illegible]

Memorandum, October 21, 1933.

Goldenweiser at request of Gov Black

add analysis

Proposal to buy gold at higher price than the world price highly regrettable, as it diverts attention from fundamental measures of economic reconstruction and endorses the belief that recovery can be brought about by monetary manipulation.

Question: What will be the effect of purchase of newly mined gold (a) at the world price (b) above world price?

Answer: (a) No important effect, as only $30,000,000 a year is involved. (b) Would have some effect, but limited by the relatively small amount - about $50,000,000 - involved.

Would have no material effect on world price of gold because only American mined gold would be eligible.

Would be similar to procedure under the Pittman Act, when American mined silver was bought at $1.00 an ounce, while the world price had declined to 65¢.

It would somewhat strengthen gold by taking that much off of the market.

It would not be a serious influence.

Effect on domestic price would be chiefly psychological.

Would be interpreted as a foreshadowing of devaluation, and might give rise to speculation, which might affect the speculative commodities - e.g. wheat and cotton.

Might also have general effect of increasing fear of inflation, and consequently encouraging the flight from money.

All this would probably be temporary.

The procedure would be a futile gesture which would benefit the gold miners alone.

Question: How can other gold and newly mined gold be purchased, and in what amounts?

Will there not be necessity of stating in advance how much of such gold will be bought, at what intervals, and for what length of time?

No legal way that other gold can be purchased unless by the Federal reserve banks, which would then run the risk of the loss.

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[illegible]

Purchases under the Trading with the Enemy Act not feasible because we can not order the outside world to turn in its gold.

There may be some way under Section 26 of the Federal Reserve Act, or under Section 734 of Chapter 12 of Title 31 of the Code of Laws of the United States.

Presumably this legal question will be solved by the proper officials.

Clear that the undertaking to buy gold either at or above world prices would require a statement as to what amount of gold it is proposed to buy.

The alternatives would be:

1. The Treasury stands ready to buy all gold offered.

2. The Treasury stands ready to buy all gold offered up to a given amount a month, indefinitely, or for a stated period, or until further notice.

3. The Treasury is prepared to buy a stated amount of gold at a stated price, or at the world price.

As a matter of procedure, there is no way of undertaking this without indicating which of these courses would be followed.

Question: What will be the effect of purchases of other gold at world prices and/or above world prices?

Answer: The answer will be different if purchases are at world prices from what they would be if above world prices.

(a) Purchases at world prices:

Would give little international repercussion.

No occasion to send gold here because same price could be obtained elsewhere.

The gold market would not be seriously disturbed.

Foreign exchanges would not be affected.

Domestically it is difficult to predict the effects, because they would be more psychological than economical.

Would generally be interpreted as adoption of the theories of the gold school which believes that prices are immediately responsive to the gold value of the dollar.

Would probably be deemed a commitment to inflation and thus would tend temporarily to raise prices of some commodities and securities.

(b) On assumption that purchase of gold will be at above world prices.

Assume it will be understood the Treasury would take all gold offered, or at least all offered up to a certain large amount.

This would be highly disturbing to world conditions.

A bid, for example, of $40 an ounce for gold here would make it advantageous for every holder of gold anywhere in the world to ship it here.

There would be a large inflow of gold unless other conditions prevented it.

In effect, this procedure would not have the advantages of complete devaluation which lie in the reestablishment of certainty.

There would be no assurance of the continuance of the offer, and no agreement to sell at the determined price.

In these circumstances, capital would not return from abroad, and capital investment would continue to languish.

Prices of international commodites would rise at least by the amount of the excess of the price of gold over the world price.

During the inflationary spurt, they might rise even more.

The effect, however, would be temporary, because the resulting international confusion would tend to lower world prices, and the decline of world prices would tend to lower American prices.

This is what happened in England.

When England went off gold, the shock to world prices was great, and world gold prices went down for a long time afterward, with the consequence that British prices showed little, if any, advance, notwithstanding the depreciation of the pound.

4. Question: What effect upon transfer of gold market from London to point at which advanced price will be paid?

Answer: All the loose gold in the world; that is, all not held by prohibitions and embargoes, would flow to America.

That would include even a large amount of gold from Indian hoards, because India has shown that a good price for gold would make her part with it, notwithstanding her habit of hoarding.

5. What would be the world price of gold after such movement is started?

Answer: The American price will determine the world price.

6. With such a movement started, how can it be controlled or stopped?

Answer: No way except either by limiting the amount that the Treasury will buy, or by discontinuing the purchases.

The latter will be difficult, because of the effect the stopping would have on domestic conditions, including prices.

7. Will it raise prices of wheat or other commodities?

Answer: Purchases at prices higher than the world price would temporarily raise prices of wheat and other international commodities, but not necessarily the prices of other commodities.

The effect, however, will be temporary, for the reason mentioned above; namely, that it will tend to lower world prices, and also because it would probably be followed by countervailing action by other Governments.

8. If other countries meet gold prices, what effect then on wheat and other commodities?

Answer: If and when other countries meet the rise of the price of gold, its effect on prices would cease.

In England this can be done right away.

In France and other countries on the gold standard, it would involve either going off gold through embargo or otherwise, or a further devaluation.

These processes, though easier now than previously, are still difficult, and involve political and economical readjustment, the scope of which is unpredictable.

9. Unless the price of gold periodically increases, what will be the effect on the price of wheat and other commodities?

Will such price remain stationary unless the price of gold is raised further?

Answer: The long time effect on price of wheat and other commodities is likely to be adverse because of the disturbance the procedure would create.

If, in the end, its position relative to other currencies remains the same as it was before, there will be no economic reason for the price advance, and therefore speculative and psychological influences would cease to function after awhile.

Prices would therefore return to where they were before, and they might even go lower as a result of disorganization of foreign trade.

The establishment of the precedent would make it more difficult to refuse further demands for raising the price of gold, unless the ineffectiveness of the first advance should diminish the cry for more.

After awhile we would be where we started, having traveled further in a fog, and having made further drafts on the people's endurance.

10. What will be the effect on conversion plans?

Answer: The attractiveness of the new issue would be greatly diminished, and many subscriptions would be cancelled.

It would be interpreted as a violation of a promise both expressed and implied, that the bonds would be redeemed in dollars of the same value.

11. What will be the effect on Government securities outstanding?

Answer: Not much direct effect, because the securities are payable in paper, and therefore have no direct relation to the price of gold.

Indirectly, however, it may have an effect on the price of Governments through its effect on Government credit, which is disclosed in the next question.

12. How will it affect the credit of the United States?

Answer: It would undoubtedly have an adverse effect, because that credit depends in part on the people's confidence that promises will be carried out, and in so far as this will be interpreted as a violation of a promise coming right on the heels of a large conversion operation, it would be likely to shake the people's confidence in Government credit.

13. Will it affect securities other than Governments, - A.A bonds, lower grade of bonds, and stocks?

Answer: First class bonds, including Governments, would probably be adversely affected because of increased rise in the monetary unit.

Stocks would probably go up about the same as world commodities. The rise, however, would be temporary.

When the effect on prices wears off, as is disclosed above, the effect on the low priced bonds would also wear off, but the effect on long time bonds might continue so long as there is uncertainty.

14. What would be the effect on business?

Answer: Will be bad except to the extent that temporary inflationary spurt would encourage it.

A sustained advance of business depends on the reestablishment of the capital market, and the increased production of durable goods.

Increased uncertainty in the monetary unit would work against the capital market.

The center of the problem is unemployment.

This can be relieved only if a large volume of durable goods is to be produced.

Non-durable goods are already being produced in normal amounts.

Further disorganization of the capital market would therefore retard employment and retard business recovery.

15. How will it affect prices of industrial products?

Answer: Those entering into world markets would behave approximately the same way as wheat and cotton; that is, they would first go up and then go down.

Finished products would move much more slowly, and over a period of time would tend down because of the continued absence of buying power, arising from no increase in employment.

16. Will the farmer get any real relief if industrial prices go higher, or as high, as increased farm products?

Answer: The farmer will get little real relief.

He would not fare as well as he has fared so far this year, because his net income has increased considerably.

But now, his prices, having been lifted from their extreme low levels, will not have the same opportunity to rise relatively over prices of other commodities, as they had last spring.

The prices of some farm products, such as wheat and cotton, would probably go up; prices of vegetables, milk, and other non-exportable commodities, would not go up.

Cost of production and cost of living would rise, and he would feel grieved.

17. How will it affect the general recovery problem?

Answer: In addition to what has been said above, it may be added that it would delay recovery by raising false hopes, and by diverting attention from the fundamental requirements of recovery which are: - cleaning up the banking situation, restoring the depositors' buying power, finding a way to clear up the mortgage problem, reestablishing a capital market, resuming the production of durable goods, vigorously prosecuting public works, and by all these means restoring employment, and in consequence relieving suffering and increasing buying power.

18. What difference is there in effect between the suggested movement and the issue of greenbacks?

Answer: There are differences.

In some respects greenbacks are more understandable, though highly dangerous, if paid through the proper channel they would create more buying power, whereas, the higher price for gold would create no new buying power.

Greenbacks issued in retirement of public debt, which is what the Thomas amendment authorized, would have little effect other than to put the Federal reserve banks still further out of touch with the market, and also to establish a precedent and further shake confidence in the Government.

In this respect greenbacks and gold purchasing are alike.

Gold purchasing would have more serious international repercussions, and both would have unpredictable effects on psychology.

19. Is it in line with the scheme of devaluation?

Answer: It amounts to one way devaluation, but fails to reestablish confidence as full devaluation would.

It probably will be taken as foreshadowing devaluation, but that is quite generally expected in any case.

20. How can you establish any real value for gold, unless you both buy and sell?

Answer: So long as you are fully prepared to sell, you can establish a minimum price and not a maximum price. No one would sell gold to anyone for less than he could get it at the United States Treasury.

There is nothing to prevent other bidders from outbidding the United States Treasury.

In other words, the dollar could not rise above the level corresponding to the price of gold, but it could sink lower.

21. What would be the effect on banks?

Answer: Would have a bad effect on member banks in two respects. 1. Would tend to depreciate the value of their bonds. Would further encourage the flight of capital. The nature and extent of the effect on banks would depend on the exact character of the decision. The higher the price, and the less definite the commitment, the worse would be the effect on banks.

22. What would be the effect on Federal reserve banks:

Answer: They would suffer from any depreciation in Government securities which might be serious. Furthermore, they would have still less capital for performing their central banking functions in regard to currency, bank reserves, and control of credit.

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See Bu

Goldenweiser

October 23, 1933

Independently of the specific details of the President's statement on monetary policy, the general effect of it is to indicate two fundamental positions: first, that salvation lies in the rise of prices and that everything must be subordinated to the attainment of that end; and secondly, that prices are directly responsive to the gold content of the dollar and that, therefore, that content should be varied in accordance with a formula that would give the desired price level. That this is the general effect is indicated by the fact that the market is strong on the announcement and that Professor Warren is happy.

To sum up the President's statements in more detail:

1. Devaulation should follow rather than precede a rise in prices. This statement is in accordance with all previous experience.

2. There is no way at the present time to determine the correct valuation of the dollar in gold.

In view of all the disturbances, the maladjustments between different price groups, speculation, and the flight of capital, this statement is certainly true.

3. We shall aim at establishing and maintaining a dollar with an unchanging purchasing and debt paying power.

This is an aim that it would be very difficult to achieve and the method of achieving it is not indicated.

4. Because of domestic and foreign developments, it is necessary to control the gold value of the dollar at home.

It is difficult to understand this statement. The dollar now has no gold value at home, because dollars cannot be exchanged for gold. The domestic

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gold value of the dollar, if it existed, would be of little consequence and interest to the American people. What they are interested in is the purchasing power of the dollar; the amount of goods that it will buy, as well as the number of dollars they have with which to buy goods. The statement indicates the belief in a very close connection between the gold value of the dollar and prices. That this connection is not close is illustrated both by the fact that prices fluctuated very widely when the gold value of the dollar was fixed, and that the movements of prices since we went off gold have not by any means been in direct relation to the price of gold. The rise in the price of gold since last summer has not been accompanied by an increase in prices and has been accompanied by a decline in prices of the very commodities which are supposed to be most responsive, namely, wheat, cotton, and other staples.

5. The dollar is too much influenced by international trade and foreigh developments and it is, therefore, necessary to control the gold value of the dollar in order to prevent dollar disturbances from interfering with continued recovery of commodity prices.

The way to establish complete independence of the gold value of the dollar from foreign influences is to return to the gold standard. This statement, however, would appear to indicate that our policy should be to do what can be done to raise prices domestically and to let the exchange value of the dollar be regulated by international conditions.

6. It is proposed to establish a Government market for gold in the United States and to buy newly mined gold at a price to be determined by the Secretary of the Treasury and the President.

The importance of this statement depends very largely on the price to be paid. If the price is to be the world price, there would be relatively little effect, because that is what is in substance being done now. If the price is to be higher than the world price, the effect would also be limited so long as purchases are restricted to newly mined gold, because the amount of gold involved does not exceed $50,000,000 ~~and~~ a year and, therefore, would not be a factor of major importance.

7. When necessary the United States Government will buy or sell gold in the world market.

The significance of this statement depends on the machinery and the application that is made of it. If it is another "as, if, and when" pronouncement, it leaves us where we are. If it has a concrete meaning, it means that we are going to operate an equalization fund something like the British fund for the purpose of not permitting the dollar to rise in the exchanges, and possibly for forcing it to decline. Presumably, all of this is to be done in the light of the behavior of prices. The fact is that a domestic policy of raising prices, so long as we are off gold, would cause the exchange value of the dollar to go down without assistance. An attempt to force prices up through manipulation of the gold value of the dollar would require an enormous fund and reflects a belief in a closer relation between gold and prices than in fact exists.

8. This is announced to be a policy and not an expedient and a definite move towards managed currency.

The management of currency has been the aim of many countries since the war. So far it has not proved to be practicable. The significance of the statement is in its endorsement of the views of monetary theorists of the most extreme quantity school.

9. Government credit will be maintained and a sound currency will accompany a rise in the American commodity price level.

The last part of this sentence needs explanation. If it means that sufficient sound currency can be obtained to meet the requirements arising out of an advancing price level, the statement is fully justified by our ample facilities for issuing currency. If the implication is that enough sound currency can be issued to cause a rise in the price level, then this indicates a position that prices can be determined by the volume of currency -- a statement which cannot be sustained.

In general, the statement is regrettable because it fastens attention on monetary manipulation and diverts it from policies that offer greatest hope of recovery.

Sen Bra

Confidential

Statement Submitted by Governor Black at Meeting of Board on October 31, 1933.

"On Sunday, October 29, 1933, I was invited to a conference at the White House. At this conference there were present:

The President
Mr. Bruere
Mr. Kent
Mr. Crane
Governor Harrison
Mr. Warren
Mr. Rogers
Mr. Morgenthau
Mr. Jones
Mr. Acheson
Mr. Black

"The President reviewed the present situation especially as it related to agriculture.

"He then stated that in pursuance of his policy to raise the level of commodity prices he had determined to have the Government, operating through the Reconstruction Finance Corporation, buy gold in the world market. He then asked for information and opinions as to the best mechanism covering such purchases. After discussion it was determined that the Reconstruction Finance Corporation should purchase the gold in the world market and should finance such purchases through its debentures, and, the means being thus afforded, the most efficacious proceeding would be, first, to have the Reconstruction Finance Corporation deliver to the Federal Reserve Bank of New York as its agent its debentures covering the cost of the gold purchased in the

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"world market; second, the Federal Reserve Bank of New York, operating through regular channels, would buy francs or sterling and convert such francs or sterling into gold for the account of the Reconstruction Corporation; third, the gold so purchased would be delivered to the Reconstruction Finance Corporation at the price paid and such price would be paid out of the debentures of Reconstruction Finance Corporation delivered to the Federal Reserve Bank of New York; fourth, such transactions on the part of the Federal Reserve Bank of New York would be solely as agent of the Reconstruction Finance Corporation and at the risk and expense of that Corporation.

"Governor Harrison and I stated to the conference that in our opinion the mechanism proposed was practicable and that I would recommend that the Federal Reserve Board grant necessary permission to the Federal Reserve Bank of New York and Governor Harrison would recommend it to the directors of the Federal Reserve Bank of New York.

"It was stated at the conference by the President that the operation would be by the Federal Reserve Bank of New York and transactions would be had by it in line with the proposed policy of the Government, reports to be made of its operations and the results of those operations, and that if the dollar was unduly depreciated the operation might be reversed.

"It was further agreed at the conference that Governor Harrison might immediately acquaint the Bank of England and the Bank of France with the present objective of the Government in these transactions.

"On Monday morning, October 30, 1933, I informally acquainted the members of this Board of the scope and details of this conference, and was informally advised by the Board members that when formally presented they would permit the Federal Reserve Bank of New York to engage in the necessary operations subject only to legal restrictions.

"I then requested the opinion of our Counsel, Mr. Wyatt, as to the right of a reserve bank to purchase debentures issued by the Reconstruction Finance Corporation. Later in the day on Monday I received the opinion of Mr. Wyatt in which opinion he stated that under the law a Federal Reserve Bank could not purchase debentures of the Reconstruction Finance Corporation. This opinion was considered informally by the Board members and it was thought that since this program was originated by the President it would be proper and courteous to have an opinion on this legal question from the Attorney General. The President agreed to the propriety "of this request and stated that he would request such opinion.

"The Board will understand, and the President was so informed, that this program can be carried out in connection with a member bank or banks without the purchase of such debentures by the Federal Reserve Bank of New York, but, if legal, it would seem proper to have the transaction fully handled by the Reserve Bank."

Mr Hamlin

See Bu

FEDERAL RESERVE BANK

OF BOSTON

COPY

November 6, 1933.

Federal Reserve Board
Washington, D. C.

Dear Sirs:-

I am sending you herewith a copy of a letter which I am sending today to Governor Harrison, Chairman of the Federal Open Market Committee, advising him of this bank's decision not to make at this time a commitment to participate in the System purchases of Government securities covered by the vote adopted at the meeting of the Federal Open Market Committee on October 10, and the Board's telegram of October 12, 1933, authorizing the Executive Committee to proceed with such purchases. I am also enclosing a copy of the resolutions adopted by our board of directors at their meeting on November 1, pursuant to which the notice is given.

As stated in my letter to Governor Harrison, the action of our board of directors was taken after I acquainted them with the discussion which took place at the meeting of the Federal Open Market Committee on October 10, with regard to participation by the Federal Reserve Bank of Chicago, the point being made at such meeting that, inasmuch as Chicago had not notified the committee or the Federal Reserve Board within the prescribed time, they were obligated to participate.

As also stated in my letter to Governor Harrison, this action was taken by our board of directors not because of lack of cooperation in the System's program but to safeguard the bank against any commitment. You will observe that in the last paragraph of the resolutions I have been instructed to advise the Federal Open Market Committee and the Board of this bank's willingness to have offered to it from week to week a share of the purchases made or proposed to be made by the Executive Committee for the System account, and you will note that in my letter to Governor Harrison I have invited the committee to offer this bank its pro rata share or more of each week's purchases made or proposed to be made by the Executive Committee for the System account.

Very truly yours,

(Signed) R. A. Young

R. A. Young
Governor

Enclosure

FEDERAL RESERVE BANK OF BOSTON

30 Pearl Street

COPY November 6, 1933

Mr. George L. Harrison, Chairman
Federal Open Market Committee
Federal Reserve Bank of New York
New York City, New York

Dear Governor Harrison:-

You will recall that at the last meeting of the Open Market Committee, which was held on October 10, 1933, the question was raised as to whether the Federal Reserve Bank of Chicago had not committed itself to participate in certain purchases of Government securities for the System account. Fortunately, a compromise satisfactory to everybody was reached, which enabled us to handle the situation, and the question, therefore, was not pressed.

At the regular meeting of our board of directors on November 1, 1933, I read the official minutes of the Federal Open Market Committee meeting on October 10, including the vote with reference to the authority of the Executive Committee to purchase the unpurchased portion of the $1,000,000,000 of Government securities covered by the vote of the Federal Open Market Policy Conference on April 22, 1933, and also read the Federal Reserve Board's telegram of October 12, 1933, authorizing the Executive Committee to proceed with such purchases. I also acquainted our directors with the discussion in reference to Chicago's position.

Having in mind the question raised in the Chicago case, our directors adopted resolutions, the purpose of which is to safeguard the bank against commitment to participate in the purchases contemplated, and I am sending you herewith a copy of the resolutions adopted.

I am now giving you the notice, which I am directed by the resolutions to give you, that this bank has decided not to make at this time a commitment of such substantial and uncertain proportions, and does not wish to participate to any such undetermined extent in the open-market operations recommended by the Federal Open Market Committee and approved by the Federal Reserve Board and referred to above.

I wish to add that this action was not taken because of any lack of cooperation, and, furthermore, in line with instructions to me contained in the resolutions, I am pleased to invite the committee to offer this bank its pro rata share or more of each week's purchases which may be made or proposed to be made by the Executive Committee for the System account, and when offers are made, we will, of course, advise the committee promptly whether we will participate in such purchases.

Very truly yours

(Signed) R. A. Young

R. A. Young
Governor

K
Enclosure

Resolutions Adopted by the Board of Directors of the Federal Reserve Bank of Boston at a regular meeting held on November 1, 1933.

WHEREAS, the Federal Open Market Committee at its meeting on October 10, 1933, unanimously recommended that the Executive Committee of the Federal Open Market Committee be given authority to purchase in its discretion for the System account the unpurchased portion of $1,000,000,000 of Government securities, the purchase of which was covered by a vote adopted at a meeting of the Open Market Policy Conference on April 22, 1933, and

WHEREAS, under date of October 12, 1933, the Federal Reserve Board advised that it authorized the Executive Committee to proceed with the proposed purchases, with certain qualifications which were properly and wisely made, and

WHEREAS, after allowing for purchases made since October 10, such unpurchased portion of such Government securities is now approximately $581,000,000, and

WHEREAS, this bank's concurrence in the operations so recommended and approved might constitute a commitment to participate in purchases amounting to as much as $581,000,000, the extent of such commitment depending upon the number of Federal reserve banks participating and the Executive Committee's basis of allocation of such purchases and being in any event substantial in amount even if all Federal reserve banks should participate, and

WHEREAS, if this bank should fail, within the time prescribed in the Federal Reserve Board's Regulation M, to file notice of its decision not to participate in such operations, it might be deemed, under the Federal Reserve Act and Regulation M of the Federal Reserve Board, to have agreed to participate in such operations on whatever basis of allocation might be validly made by the Executive Committee of the Federal Open Market Committee,

NOW THEREFORE BE IT RESOLVED that in the opinion of this board of directors this bank should not at this time make a commitment of such substantial and uncertain proportions, and be it further

RESOLVED, that the Governor of this bank be and he is hereby instructed (1) to file with the Chairman of the Federal Open Market Committee forthwith written notice of the foregoing decision, with a statement that this bank does not wish at this time to participate to any such undetermined extent in the open-market operations so recommended and approved, and (2) to transmit a copy of such notice to the Federal Reserve Board, and be it further

RESOLVED, that the Governor be and he is hereby instructed to advise the Chairman of the Federal Open Market Committee and the Federal Reserve Board of this bank's willingness to have offered to it from week to week a share of purchases made or proposed to be made by the Executive Committee for the System account, under the recommendations of the Federal Open Market

Committee and the approval of the Federal Reserve Board, which offers this bank may in its discretion accept in whole or in part as received.

I, the undersigned, Secretary of the Federal Reserve Bank of Boston, do hereby certify that the foregoing is a true and correct copy of preambles and resolutions which were duly adopted by the board of directors of said bank at a meeting duly called and held on November 1, 1933, a quorum being present, and of the whole of the said preambles and resolutions, as set forth in the minutes of the said meeting.

IN WITNESS WHEREOF I hereunto subscribe my name and affix the corporate seal of the said Federal Reserve Bank of Boston.

(Signed) K. K. Carrick
Secretary

Boston, Mass., November 4, 1933.

(S E A L)

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bu

Date November 7, 1933

To Mr. Hamlin

Subject:

From Mr. Goldenweiser EAG

GPO 16—852

I return herewith the copy of Senator Owen's letter to the President. His recommendation is that currency be issued in order to bring about recovery. He has a great many figures which are all correct, but which have no relation to the point that he is trying to make. The theory that there is some magical power in greenbacks by which recovery would almost automatically return is not based on figures, but on emotions, and, therefore, can not be proved or disproved by statistical evidence. The fact is, of course, that unless something were done with the currency that would otherwise not be done at all, the effect of its issuance would be the same as that of a purchase of an equivalent amount of Government securities by the Federal reserve banks. The difference is partly psychological and partly the fact that if greenbacks are issued the Federal reserve banks do not acquire assets which they could sell when the necessity for contracting credit arose. Another difference is the very great ease with which money can be printed, and the consequent difficulty of resisting a pressure for more when this method has once been resorted to.

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Hon. Charles Hamlin
with the Compliments
R.L.O.

STRICTLY CONFIDENTIAL FOR YOUR PERSONAL INFORMATION - (CAPTIONS INSERTED) -

October 16th, 1933.

The President,

The White House.

My dear Mr. President:

As your personal and political friend of many years I wish to urge upon you the view that the country cannot afford to have the expansion of credit and currency longer delayed; that it ought to have been done in 1930. The failure of the former administration under conservative advice to expand credit and currency and stop the contraction resulted in a property value loss of $200,000,000,000. The attempt to end the depression in 1932 by the R. F. C. lending public credit for private credit was a substitution of credit and not an expansion of credit, and ended on March 4, 1933, in suspending every bank in the United States.

CAUSE OF THE DEPRESSION

The cause of the depression was an expansion of brokers' loans by commercial banks, by private corporations, by individuals and foreign financiers, to the extent of $11,000,000,000 for operations on the stock exchange. The loans were safe; they were secured by 40% margins; they bore a very high rate of interest, running from 10 to 20 per cent. The loans were made for unproductive purposes; they stimulated gambling on the stock exchange; they resulted in false values of stock certificates. A collapse was unavoidable. On October 23, 1929, the avalanche began. Outside loans were cancelled in 7 days to the extent of $2,380,000,000; within six weeks brokers' loans were retired amounting to $6,000,000,000; a shrinkage in stock market values of $30,000,000,000 took place by December 1st, 1929. This loss was distributed among 20,000,000 share holders.

COINCIDENT EVENTS

Coincidentally with this contraction of credit and destruction of property values a wave of pessimism and economy swept the country. The official index will show that consumption, production, employment, car-loading, instantly fell about 25%, and a vicious spiral downward was established. The less consumption the less production, and the less employment and wages. When this vicious spiral was established property values of all types steadily fell because of a lack of check money by means of which property is valued.

THE RESULT OF CREDIT CONTRACTION

As a result, by the end of 1932 stock market values, listed and unlisted, had fallen a hundred billion dollars, and other forms of property had fallen almost in a like amount. Such property consisted of equities, real estate, commodities, income, profits, as well as stocks and bonds. Money rose in terms of purchasing power of commodities 66%. Money rose in terms of farm commodities much more. Money rose in terms of real estate anywhere from normal to one thousand per cent. Money rose in terms of United States Steel and some big bank stocks one thousand per cent. In terms of Anaconda stock it rose 4000 per cent, and in terms of some other stocks still worse. These losses produced millions of bankrupts, impaired the solvency of bank borrowers, impaired the assets and bonds of the banks even where bonds were based on the taxing power of the people; reduced incomes and profits abnormally. The people were no longer able to pay their taxes; the revenues of every city, county, state and even of the United States fell off in a ruinous manner.

THE R. F. C. FUTILE TO END DEPRESSION

In 1931 the last administration attempted a remedy which was unintelligent and ineffective. The Reconstruction Finance Corporation was established as a means of lending three billions of public credit to distressed corporations to relieve them from the pressure of private creditors. It relieved the private creditors but did not correct the contraction of credit by the expansion of credit. It was merely a substitution of public credit for private credit. It saved many worthy persons and corporations from bankruptcy; it did not increase the volume of credit and therefore did not increase the value of property. The result of this conservative policy was to compel debtors to go through bankruptcy and part with their property. It resulted in the bankruptcy of many thousands of worthy banks and a further contraction of credit; of deposits; of check money based on deposits.

EXTENT OF CREDIT CONTRACTION

By December 31, 1932, bank loans had contracted $16,000,000,000 bank deposits $13,500,000,000.

Between December 31, 1932, and March 4, 1933, thousands of other banks failed and remained suspended, tying up loans and deposits of about $5,000,000,000. On March 4, every bank in the U. S., as an act of emergency, suspended operation.

The cause of this depression is well understood by students, and Congress perfectly well understood the remedy.

CREDIT CONTRACTION CAUSED DEPRESSION OF 1921.

The depression of 1921 was produced by the same cause, to-wit, the contraction of credit and currency as set forth in the demand of the Republican Platform of June 10, 1920, and by Mr. Harding in his speech of acceptance in July, 1920. The cause was perfectly well understood by the Democratic convention in 1924 when it condemned in specific terms the wilful contraction of credit and currency under the Republican administration of 1921. The full details I have heretofore presented to you and to the public in writing.

MONEY STABILIZATION

For ten years the Congress, led by patriotic republicans and democrats, have studied this most vital of all modern questions - the stabilization of the purchasing power of money. It resulted finally in the passage of the Goldsborough Bill in 1932 by a vote in the House of Representatives of 289 to 60, 172 democrats and 117 republicans voting for it. The Bill declared that it was the policy of the United States to restore and maintain the purchasing power of money to the standard ascertained by the Department of Labor for the average of the years 1921 to 1929, inclusive.

THE ADMINISTRATION'S PURPOSE AND AUTHORITY

You were understood to be in favor of this Bill and to be opposed to the conservative policies of the preceding administration; you were nominated and elected on this theory, and the statement of October 15, 1933, by the Associated Press, through one of high authority speaking for you, ratifies and confirms this view. It clearly stated:

"That the policy and purpose of the government is just what it was in April - to raise American Values so that a top-heavy debt structure can be paid off in the same kind of dollars in which the debt was incurred."

When Congress met in March it immediately gave you the power to expand credit and currency in an amount deemed sufficient to raise the value of commodities and property by having the reserve banks buy Government bonds to the extent of three billions of dollars and the Treasury Department issue three billions of non-interest bearing treasury notes as money, subject to automatic retirement.

THE EFFECT OF PROMISING RELIEF BY EXPANSION

When this action of Congress took place with your approval it had a great psychological effect on the country; property values immediately began to rise; the country believed that the depression was being brought to an end; but when in the middle of July last the public press announced that you would only use the powers of expanding credit and currency "when, as and if necessary" and would postpone expansion until you could see the effect of the other efforts being made by the Government, an immediate reaction of the gravest proportion took place in the stock market. The general commodity index which had started to move upward ceased to move upward and went through a reaction.

THE EFFECT OF FURTHER POSTPONING EXPANSION RELIEF

When on October 15th it was again repeated that the administration would only use the powers of expansion "when, as and if necessary" an immediate reaction took place on the stock exchange where colossal property values are traded in. Wheat fell off today 5 cents per bushel, the maximum allowed; cotton fell off under 9 cents and at the very time when the administration was proposing to loan $250,000,000 on cotton at 10 cents per pound.

LENDING PUBLIC CREDIT IS NOT EXPANSION

Mr. President, lending public credit to bolster private credit is not expansion of credit, but is a substitution of credit. When the Government sells its bonds to the public the citizen receives the bond and transfers to the Government his bank deposit; and when the Government transfers this bank deposit to others for service or as a loan, or as a gift, the deposit volume is not increased - it merely transfers a deposit of one citizen to another citizen. It does not expand.

It is, however, true if the Government sells its bonds to a bank and the bank receives the bond and establishes a new deposit that would be an actual expansion of credit, an increase in the volume of deposits against which check money would be available; but there has been no net expansion of such credit due to the purchase by banks on their own account of Government bonds. The proof of this appears in the enclosed reports of the reporting member banks since your administration came in on March 4, 1933.

CREDIT AND CURRENCY CONTRACTION SINCE MARCH 4th 1933

On March 6, 1933, the reporting member banks had outstanding loans of $9,627,000,000; on October 9th they had $8,565,000,000; a net contraction of loans of $1,062,000,000. Their total deposits on March 6th were $16,481,000,000; on October 9th they were $15,954,000, 000; a contraction of deposits of $747,000,000.

The Federal Reserve banks have not expanded their net total credit nor money in circulation during the same period. On March 9, 1933, the Federal Reserve total credit outstanding was $3,644,000,000; on October 15, 1933, it was $2,477,000,000; a contraction of credit of $1,167,000,000. On March 9, 1933 money in circulation was $7,538,000,000; on October 15, 1933, it was $5,673,000,000; a contraction of $1,865,000,000. These contractions of credit and currency amount to over $4,000,000,000, and do not include other contractions by a large number of member banks and non-member banks not in the above calculation.

THE VALUE OF MONEY DEPENDS ON AVAILABLE SUPPLY

The most famous monetary authority in the world, Proffessor Gustav Cassel, under whose guidance Sweden has stabilized the purchasing power of money and therefore has stabilized the average value of property, said in his Post War Monetary Stabilization that it had taken years of hard labor to make the people understand that the value of money depends upon the supply of the means of payment in relation to demand.

This is our problem, Mr. President.

The commodity index is standing still at 71 since July 15.

A thousand communities and groups have resorted to barter exchanges and the issuance of scrip because there is a famine of money among the people and an engorgment of money in banks 90% liquid.

As all property is measured in terms of dollars, when the people cannot sell their property at pre-depression values, or at any value, and cannot borrow on it, it means universal bankruptcy because the debts remain. The total debts exceed $200,000,000,000; and the demand for money for transacting the national business, living expenses, and fixed charges, is colossal.

HOW VOLUME OF CHECK MONEY HAS CONTRACTED

The check money cashed in banks in 1929 was $1,200,000,000 000. The volume of this check money with which we transact over 90% of our business has diminished in the last twelve months to less than $500,000,000,000; a contraction in volume of about $700,000,000, 000. It is under these conditions that the property values of the

American people have contracted approximately $200,000,000,000, and their pruchasing power has been profoundly affected by the shrinkage of such properties and of their incomes. Such incomes as they have remaining are urgently needed to meet their debts and to postpone the day of bankruptcy.

WHEN, AS AND IF NECESSARY

Mr. President, you are surrounded by friends and associates and advisers of every shade of opinion, including some who believe in allowing the depression to burn itself out by forcing liquidation of all debtors on the theory of "the survival of the fittest." The public press absolutely surrounds you and your advisers with an atmosphere that would lead you to believe that there is no difference between expansion of credit and "inflation." The Associated Press article on October 15th says that on high authority the President "would use his inflationary powers when, as and if necessary." Inflation of money is unjustified expansion in volume of irredeemable money. To inflate money is to expand the volume and thereby diminish its value unjustly to the creditor. When money has been abnormally contracted to the ruin of the debtor to expand it to correct this colossal wrong is not an injustice to the creditor but an act made necessary by justice and right. The power of expansion given to the President was not inflationary. I have always strongly opposed inflation and oppose it now; but to restore the purchasing power of money and to maintain it at a standard value is not only a righteous act overwhelmingly supported by the votes in Congress and by the opinion of the American people; but is a constitutional duty of Congress under Paragraph 5, Section 8, Article 1, of the Constitution, which requires Congress to regulate the value of money.

REACTIONARY PROPAGANDA

The American Press has been filled by reactionary advice denouncing "inflation" (which Congress did not propose) and expressing great faith that you would not permit "inflation;" at all events that you would not permit it until you tried out the R. F. C., and the N. R. A., and the A. A. A., etc., - or until "when, as and if necessary."

However valuable these processes, the N. R. A., and the A. A. A., or the R. F. C., etc., may be, they are not achieving any result in causing a rise in the general commodity index, or any fall in purchasing power of money, Temporarily the merchants and manufacturers can raise their prices, but unless the property values of the American people are restored to normal by expansion of credit and currency the people cannot buy normally - the "commodity index" will not go up; the armies of bankruptcies will continue to march to ruin; and there must ensue a collapse of the faith of the people that your administration will give them relief. If this happens, and it is already becoming clearly audible, no man can foresee its sorrowful consequences.

You are armed with a great responsibility, equal to the power granted you

A PETITION FOR IMMEDIATE EXPANSION

I humbly pray you to immediately consider and realize that a clear declaration of your purpose to expand credit and currency at once and until property values are restored will go far to restore confidence in property values and accomplish your real purpose. The delay by the Hoover administration to do this resulted in a great catastrophe. You have been in power for nearly eight months - the people love and trust you - Congress has given you the power to give relief, and you have not yet given it. The people have loved and trusted you and believed you would give them relief.

I fervently pray their loving faith in you may be speedily and fully confirmed and exalted by your response.

They have suffered enough. Permit me to express the conviction that the time for "when, as and if necessary" has arrived. It is the one great thing now expected of you.

Believe me, Mr. President, as ever your faithful friend and servant,

R. L. Owen

Wardman Park Hotel

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Sec Rm

Governors. Oct 12.33

MEMORANDUM OF OPEN MARKET POLICY

In their participation in the extensive open market program which the Reserve System has conducted for a number of months past, the Federal Reserve banks have been actuated by their desire to contribute to the fullest extent within their power to the national recovery effort. In furtherance of that desire, and as a result of our observation of the open market operation, we believe that we may render a helpful service by recording our present views.

The System's holdings of government securities now amount to the unprecedented sum of $2,274,000,000, more than ten percent of the Federal debt. Excess reserves of member banks are now nearly $800,000,000, member bank indebtedness to the Reserve banks has been reduced to the smallest figure since August, 1917, and short-time money rates have been forced down to the lowest level in our history. When to these facts it is added that the volume of currency outstanding is $5,595,000,000, far in excess of that outstanding in 1929, and that bank reserves are greater than at any previous time in our history, it would seem that our monetary problem today is not so much one of correcting a deficiency in the supply of basic money, whether by Federal Reserve credit or by government currency, as of achieving an effective use and turnover of the already existing supply.

Open market operations, as a means of stimulating business recovery, are ordinarily designed to force banking funds, first, into the short-time money market, and subsequently, as short-time rates are lowered, into the intermediate and long-time capital markets. In the present instance, it seems clear that

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neither of these major purposes is yet accomplished.

As to short-term credit, there are still grave obstacles both for borrowers and for lenders. Many business concerns, whose worth has been diminished by the unprecedented shrinkage in values and by several years of unprofitable operation, have been either unable or afraid to draw upon the available credit supply. At the same time many of the banks, partly by reason of their former unfortunate experiences and partly by reason of new uncertainties incident to the inauguration of the deposit insurance and other features of the Banking Act of 1933, have felt it necessary to pursue a policy of extreme liquidity. The result is that, notwithstanding the Reserve System's open market purchases and the consequent large increase in bank reserves, loans and investments of member banks have been virtually stationary for four months, and net demand deposits are less today than at the end of May. In addition, some $4,000,000,000 of deposits remain locked up in closed or unlicensed banks.

Not only has there been no expansion in the volume of short-term bank credit, but the desired pressure of funds into longer uses in the capital goods industries seems to be blocked by lack of confidence in the future position of the dollar and uncertainty with respect to monetary policy in general, and also by the liabilities imposed by the Securities Act of 1933 and the Banking Act of 1933. The capital issues market remains completely stagnant; and coupled with this is the further fact that the recovery in business from March to August, through unprecedented for extent in so short a period, revealed a serious lack of balance in the pronounced lagging of the capital goods industries, which are responsible for over 60 per cent of present unemployment. It is worthy of special mention, also, that during the recent recurrence of inflationary agitation the bond market lost one-third of its advance since March. The bearing of a declining bond market upon the condition of banks and upon the prospect for reviving the capital goods industries through the long-time money market requires no elaboration.

In our judgment, these conditions indicate that the effectiveness of open market operations, in so far as banking and credit factors are concerned, will depend in large measure upon the early adoption of a broader program, designed to strengthen confidence and to encourage the flow of credit, both short-time and long-time, into uses which make for a well-balanced and enduring recovery.

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See Rd

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Fed adv C.

Nov 21, 33

One of the functions of the Federal Reserve System, of which the Federal Advisory Council is an integral part, is to furnish an elastic currency to the country. The Council has specifically imposed upon it by the Federal Reserve Act the duty: "(1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said Board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system."

The members of the Council have a sense of responsibility collectively as regards the Federal Reserve System and individually as regards the districts and business communities which they represent and for these reasons make the following statement:

While the Council is in sympathy with the general purposes of the Administration, it believes these are not to be accomplished by a currency of fluctuating value.

The members of the Federal Advisory Council believe:

1. That a higher price-level is beneficial only if accompanied by higher national income, and that this can only be brought about by increased volume of business and increased employment.
2. That a depreciating and fluctuating currency value will not adjust existing discrepancies in the price-level.
3. That as long as there is uncertainty in regard to the future value of the monetary unit, there can be no lasting or

fundamental improvement in business.

4. That this uncertainty tends and has tended to depress the market price of Government securities and corporate and municipal bonds, which in turn has affected and will continue to affect adversely the entire economic structure, and thus stand in the way of recovery.

5. That unless there is monetary stabilization it will become increasingly difficult for the Government to finance its large commitments for reconstruction purposes and to refinance its maturing obligations. The resulting uncertainty will especially affect and cause great uneasiness among the millions of wage earners, savings depositors and holders of insurance policies. It will further diminish the flow of capital into the investment field and it is this money which is used largely for the purpose of financing the production of capital and durable goods. It is in these fields that unemployment has been most difficult to overcome. The existing uncertainty has already caused capital funds to leave the country to be invested in foreign securities and deposited in foreign banks.

6. That no monetary standard can be finally and permanently satisfactory until other important nations have taken similar action and that such international action is extremely improbable on any other than a gold basis.

7. That history shows that the further currency inflation goes, the more difficult it becomes to control and that it inevitably

results in untold losses to great masses of the people and the ruin of national credit.

In view of the opinions above recorded, the Federal Advisory Council believes that no time should be lost in the prompt reestablishment of our currency based on gold which may well be coupled with safeguards to be agreed upon by international action.

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See Bd
Nov 21 33

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Fed Adv C.

On September 18, 1933, the Governor of the Federal Reserve Board presented a list of questions to be considered by the Federal Advisory Council. The Council presents the following answers:

1. Federal Reserve:

(a) Open Market Operations. In view of the fact that the policy has presumably been changed since the last meeting of the Council, the Council before being able to reply to the inquiry desires to know what the present policy of the Open Market Committee is.

(b) Loans to Individuals, Partnerships and Corporations. The Council regards the present provision as meeting the situation. If an applicant can not obtain accommodation at a regular bank, or because banking facilities in his district are lacking, it is very well that there should be some provision as the present one.

2. Reconstruction Finance Corporation. The Council believes that under present circumstances such loans properly safeguarded may be useful.

3. Commercial banks.

Restricted credits, due to

(a) Condition of capital market (See recommendation of Council presented at last meeting.

(b) Uncertainty about Federal Insurance Deposit Corporation. It seems to the Council that the Federal Insurance Deposit Corporation adds one more uncertainty to others, which at times causes loaning officers in banks to hesitate, especially in such banks as have not been examined and where possibly fear exists as to the results of such examination.

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(c) Monetary situation. Reference is made to the recommendation made at this meeting by the Council, which covers the situation.

4. <u>Inflation.</u> This topic is also covered by the recommendation made at this meeting by the Council.

5. <u>Federal Insurance Deposit Corporation</u>. The Council expressed its opinion about the Federal Insurance Deposit Corporation in its recommendation of May 16, 1933.

6 and 7. <u>Keeping open open banks. Closed banks</u>. The Council approves the policy of keeping open open banks, and as quickly as possible liquidating closed banks.

8. <u>What will promote healthful and cooperative action on part of banks</u>?

The Council should like to be informed when and under what circumstances banks have refused to cooperate.

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Sec Bd

Nov. 21, 1933.

On September 18, 1933, the Governor of the Federal Reserve Board requested the opinion of the Federal Advisory Council with respect to certain features of the monetary situation having specific reference to inflation.

In view of this request the Federal Advisory Council offers the following observations.

The Council sympathizes with the fundamental purposes of the Administration in its expressed determination to bring about an increase in employment, to increase purchasing power, to raise price levels, and generally to return our citizenship to a condition of economic and social well being consistent with the great wealth and resources of the country; it feels, however, that the attainment of these ends is certain to be seriously retarded by the widespread and increasing concern for the value and stability of the Nation's currency. Without an enduring faith in the steady purchasing power of the dollar, the laborer is without security of his hire, capital is exposed to loss and the entire economic structure is undermined by doubt and fear.

The Council therefore believes that an early return to a gold standard basis for our currency is of the greatest importance and an imperative necessity to the success of the Administration's Recovery Program.

It strongly urges the Federal Reserve Board to exert its utmost influence to bring about early stabilization of the currency, together with a commitment for the reasonable and definite limitation of the Federal debt, to the end that confidence in the dollar may be restored, that flight

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of American capital be halted, that decline in the price of Government securities be arrested, and the welfare of all our people preserved.

Ser Ba

November 25, 1933.

MEMORANDUM FOR THE FEDERAL RESERVE BOARD:

The National City Bank of New York proposes to increase its capital by the sale and issuance of $50,000,000 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others; also proposes to reduce its present common capital from $124,000,000 to $77,500,000; no part of the released capital is to be returned to shareholders but is to be credited to eliminate or reduce specific items which are losses or doubtful items in the bank's assets; also proposes to reduce the present par value of its common stock from $20 to $12.50 a share.

The latest report of examination of the subject bank made as of the close of business April 7, 1933, shows the following principal features:

Assets (000 omitted)		Liabilities (000 omitted)	
Loans	$334,405	Common Stock	$124,000
Int. earned not Coll.	5,565	Surplus	50,000
Cust. Liab.a/c Acceptances	70,769	Profits	5,396
U.S. Bonds Pledged	63,337	Res. for Div. Cont. etc.	51,428
U.S. Bonds not pledged	168,833	Res. for Int. Taxes, etc.	2,402
Premium on U.S. Bonds	1,909	Int. Col. not earned	1,110
Bonds, Sec. etc.	207,199	Deposits, Due to Banks, etc.	792,405
Bkg. House, Fur. & Fix.	58,072	Circulation	23,119
Other Real Estate	201	Bills Payable	10,000
Cash & Due from Banks	130,709	Bills of Exch. end. by us	988
5% Fund	1,250	Cash letters of credit	1,705
Suspense a/c	36,106	Acceptances for Customers	71,888
Accounts Receivable	498	Other income, Coll. not earned	520

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Assets		(Continued) Liabilities	
Prepaid Expense.......... .$	1,337	Offset to Russian Govt. Claims $	1,372
Income earned, not Coll...	145	Due to foreign Branches......	14,016
Due from foreign banks ...	9,648	Acceptances sold, our endorse.	18,683
Due from foreign branches.	60,433	Miscellaneous.................	81
Exch. trading profit......	205		
Accept.other banks (contra)	18,683		
Miscellaneous..............	307		
Total	1,169,611	Total	$1,169,611

Recapitulation of Assets

Slow	$161,000,000
Doubtful..................	54,691,000
Estimated Losses...........	72,749,400
Depr. Group 2 Bonds........	13,798,000
Depr. Group 1 Bonds........	5,316,000

This office is now advised by the applicant bank that since the above examination of April 7, up to November 23, changes have occurred affecting the examiner's estimate of losses and depreciation in securities; also certain changes have been made in the bank's capital structure, up to October 31, viz:

000 omitted

Capital	$124,000
Surplus	40,000
Profits	5,600
Res. for Dividends	0
Res. for Contingencies	65,227
Res. for Int. Taxes, etc.	5,530

Losses as per above report of examination		$72,749,400
Less		
Charge offs applied June 30..	$6,100,000	
Recovery in market value of securities pledged to loans	7,000,000	13,100,000
		$59,649,400
Less		
Application of proposed reduction in capital		46,500,000
		$13,149,400

Reserve for contingencies as above	$65,227,000*
Reduction of surplus from present $40,000,000 tp $30,000,000	10,000,000
	$75,227,000

		$13,149,400
(carried forward)	$ 75,227,000	
Less Reserves applied by the Examiner in his report before arriving at total losses and reserves for losses since the examination and hence not included by the Examiner in his report (about)	12,000,000	
	$63,227,000	$65,227,000
		$50,077,600 -
Less depreciation in defaulted and Group 2 bonds and premium on U. S. Govt. bonds (about)		10,000,000 -
Unallocated reserves applicable to the Examiner's estimate of doubtful assets		$40,077,600 -

* Included in the Reserves of $65,227,000 (supra) is the $10,000,000 transferred September 30, 1933 from the Surplus Fund of $50,000,000 existing at the date of the examination.

It is proposed that after recapitalization, charge offs, and reserve accounts have been set up the capital funds of the bank will be as follows:

(ooo omitted)

Capital	$77,500	
Surplus	30,000	
Profits	5,600	plus earnings from Oct. 31 to date of recapitalization.
Res. for Contingencies	40,077	Unallocated. To be deducted from appropriate asset account in reports of condition, and published statements.
Reserve for Int. Taxes, etc.	5,530	Subject to current operations.

The attached file contains letters from Federal Reserve Agent Case and Chief Examiner Roberts recommending approval of this recapitalization.

It is recommended that the subject bank be permitted to reduce its common capital from $124,000,000 to $77,500,000; provided, no part of the released capital of $46,500,000 is returned to shareholders but is directly used as a credit to eliminate that amount of the least desirable assets in bank, and allocated to specific items; which assets, however, are to remain the property of the bank; provided there is transferred from the surplus fund to the undivided profits at least $10,000,000, there having been transferred from the surplus fund to undivided profits since the examination the sum of $10,000,000 and used to create "Reserve for Contingencies"; provided, there is charged against undivided profits at least $10,000,000 and that amount credited to "Reserve for Contingencies" to increase the existing "Reserves for Contingencies" to not less than $75,227,000; subject, however, to further charges as hereinafter described; provided that with the amounts already written off of $6,100,000, including the above $46,500,000 write-off directly from capital against losses estimated by the Examiner, as above, making allowance for $12,000,000 of such reserves not applicable to losses estimated by the Examiner, the reserves so created will at least equal the total losses estimated by the Examiner and also the present depreciation in Group two bonds of not less than $10,000,000 after due allowance is made for recovery in security values in collateral to loans since the examination not to exceed $7,000,000; provided, in published reports of condition and in reports of condition to the Comptroller of the Currency the bank deduct the amounts in the "Reserve for Contingencies" accounts from the asset accounts containing the substandard assets for which such reserves were created, and report such asset accounts net, i.e., the then present book value of such asset accounts less the amounts in the reserve accounts thereagainst; and provided, that before such reduction of capital shall have become effective the bank's capital shall have been increased by the sale and issuance of $50,000,000 of preferred stock to the Reconstruction Finance Corporation and/or others.

F. G. AWALT
Acting Comptroller.

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