The Papers of Charles Hamlin (mss24661)

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Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 12, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from volume 266 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 266

Page 23
Memo to Mr. Goldenweiser from Miss Burr - Summary of the Provisions Contained in H.R. 6736 Introduced by Mr. Patman.

Page 25
Earnings and Expenses of F.R. Banks, November 1935.

Page 35
Memo to Mr. Hamlin from Mr. Carpenter attaching minutes of Governors' Conference.

Page 37
Memo to Mr. Hamlin from Mr. Carpenter attaching memo from Federal Open Market Committee.

Page 41
Memo to Mr. Hamlin from Mr. Carpenter attaching a memo from Dr. Burgess on subject of excess reserves.

Page 51
Memo to Mr. Hamlin from Mr. Currie re the objective and modus operandi of the 100% plan.

Page 55
Minutes of Governors' Conference, December 17, 1935.

Page 103
Memo to Mr. Hamlin from Mr. Carpenter attaching copies of report of open market operations.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sep/ta

Date December 10, 1935

To Mr. Goldenweiser

Subject:

From Miss Burr and Roland Robinson

SSB RR

16—852

Each of the bills, S 433 (Thomas) and H. R. 6736 (Patman), of which abstracts are attached, would provide for Government ownership of the stock of the Federal Reserve banks, would provide for a central monetary authority, and would establish the policy of price and wage stabilization at 1926 levels. The bill H. R. 6736 (Patman) proposes the more sweeping changes. The agency which would be created (The Federal Monetary Authority) would assume the functions of the Secretary of the Treasury as well as the Federal Reserve Board. In addition, the banking system would be unified and 100 percent reserves would be required for all demand deposits. The bill S 433 (Thomas) would centralize the Reserve System under the Federal Reserve Bank Board, which would be given additional powers, and would transfer the Bureau of Labor Statistics to this agency.

C23

December 9, 1935
SSB:RIR

Summary of the Provisions Contained in H. R. 6736 Introduced by Mr. Patman, March 14, 1935.

1. The stock of Federal Reserve banks would be purchased by the Government at book value.

2. There would be created a Federal Monetary Authority of seven appointed members of which not more than four members can belong to or be identified with one national party, and two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency. The members of this Federal Monetary Authority would be appointed by the President with the advice and consent of the Senate, would hold office for fourteen years, and would be eligible for reappointment. Pensions are provided under certain conditions for retiring members of the Board. This Federal Monetary Authority would assume all duties and powers of the Secretary of the Treasury and the Federal Reserve Board. It would have general supervisory authority over a unified bank structure, would be the custodian of the public credit and funds of the United States, and would be the agent of Congress for the issue of money and the control of its value.

3. The Treasurer would be appointed to act as a settlement agency for all Federal Reserve banks.

4. All of the present paper currency would be replaced by legal tender Treasury notes which would be redeemable in gold or silver at prices fixed by the Federal Monetary Authority, but only for the purpose of settling net debit international balances for legitimate commercial transactions.

5. This bill would provide for the unification of the banking structure and for general control and regulation of all banks by the Federal Monetary Authority. All banks would be required to carry reserves equal to all deposits payable within 60 days, and 5 percent reserves against all other deposits. In order to make sufficient currency available for such reserves, the Federal Monetary Authority would be required to purchase from banks and individuals United States Government bonds, municipal bonds, or bank assets and would be allowed to rediscount bank assets.

6. The Federal Monetary Authority would be required to buy and sell domestic gold and silver at a price fixed by it and it would be allowed to trade in other gold and silver, foreign exchange, and obligations of foreign governments.[1/]

7. The declared policy of the bill would be to raise wages and wholesale prices (the wholesale price index of the Bureau of Labor Statistics) to the 1926 level and to maintain full employment. When it would be necessary to expand the currency in order to effect this end the Federal Monetary Authority would be authorized to pay ordinary and emergency Government expenditures by the issue of Treasury notes, in addition to amounts elsewhere provided for in the bill. The same section of the bill provides that the Treasury note issue should be expanded until it shall be $250 of demand deposits per capita in

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1/ Section 2(f) says "The Federal Monetary Authority shall ... control the value thereof and the value of all foreign currency and coin ..." The probable intent of this section was that the Federal Monetary Authority should control the dollar prices of foreign currency and coin but not literally the "value of all foreign currency and coin".

circulation and thereafter the Federal Monetary Authority would have authority to induce an increase of 4 percent per annum. The Federal Monetary Authority would also be authorized to contract bank deposits by selling Government obligations if the wholesale price level rises more than 5 percent above the 1926 level.[2/]

8. The Federal Monetary Authority would be required to establish and maintain an Economic Research Service, the duties of which would be to collect and assemble and analyze all of the authentic data which may be obtained from any governmental or other source for the purpose of determining the true and correct relation of the total amount of money in active demand deposits to prices, wages, business and industrial activity, and the standard of living, and the total quantity of money necessary to be in circulation in demand deposits to maintain full productivity of the individual and collective resources of the Nation, so that Congress could scientifically and accurately determine the rate at which progressive additions to the stock of circulating money should be made to promote a constant elevation in the general average standard of living as rapidly as the productive capacity and facilities of the Nation would permit.[3/]

2/ These apparently inconsistent provisions probably reflect a conviction of the author of the bill that a circulation of demand deposits of $250 per capita should provide full employment at 1926 price and wage levels. No indication is made which purpose should be given priority.

3/ Slightly paraphrased from section 8 of the bill.

December 9, 1935
SSB:RIR

<u>Summary of the Provisions Contained in S 433 Introduced by Mr. Thomas of Oklahoma, January 3, 1935.</u>

1. The bill provides that all member banks transfer to the Government their Federal Reserve bank stock at "paid-in value", together with any lawful increment. Thereafter the capital stock of Federal Reserve banks would be owned by the Government and would be increased or decreased by resolution of the Federal Reserve Bank Board and approval of the President.

2. A central Federal Reserve Bank would be created to embrace the present Federal Reserve banks, which would be branches of the head office.

3. The Federal Reserve Bank would be administered by a Federal Reserve Bank Board of seven members appointed by the President with the advice and consent of the Senate and two ex-officio members, the Secretary of the Treasury and Comptroller of the Currency. The appointed members of the Board would hold office for seven years, would be eligible for reappointment, and under certain conditions would be pensioned upon retirement. Not more than four members could belong to or be identified with one national party. This Board would exercise the powers of the present Federal Reserve Board and, in addition, would have general supervision over the monetary system and would have power to make regulations not inconsistent with the law for the safe and proper conduct of member banks.

4. The Federal Reserve Bank would be allowed to extend credit to individuals, firms, corporations, and associations for agricultural, industrial, and commercial purposes under provisions roughly similar to classic eligibility provisions contained in sections 13 and 13(a) of the Federal Reserve Act.

5. All of the present paper currency would be replaced by a new issue of Federal Reserve notes and all collateral held against the present paper currency issues would be delivered to the Federal Reserve Bank. These notes would be redeemable in gold or silver at prices fixed by the Federal Reserve Bank Board but only for the purpose of settling net debit international balances for legitimate commercial transactions. All monetary metal would be held in the custodianship of the Treasurer of the United States and would be under the supervision of the President, the Secretary of the Treasury, and the Treasurer of the United States.

6. The Federal Reserve Bank Board would be required to buy and sell gold and silver in the domestic market at a price fixed by it and it would be allowed to trade in other gold and silver, foreign exchange, and obligations of foreign governments.1/

7. The bill declares the policy of the United States to be to "restore the value of property to the normal standard; to restore and maintain the purchasing power of money, using the wholesale-commodity index as a guide; and to expend credit to the extent to which the volume of production shall rise annually, after the commodity index of 1926 shall have been restored.

4(g) 1/ Section 2(f) says "The Federal Reserve Bank Board shall ... control the value thereof and the value of all foreign currency and coin ..." The probable intent of this section was that the Federal Reserve Bank Board should control the dollar prices of foreign currencies but not literally the "value of all foreign currency and coin".

"The stabilization of the purchasing power of the dollar shall be a fixed policy of the Government of the United States, and of the Federal Reserve Bank Board, and of the regional Federal Reserve banks, and all the powers of the Federal Reserve bank shall be employed to give stability to industry, commerce, manufactures, agriculture, mining, forestry, fisheries, and other human activities as far as it may be done by regulating the volume of money through the issue of currency and by expanding and contracting bank deposits and credit and regulating the rate of interest." 2/

The Federal Reserve Bank Board would be required to restore and maintain the wholesale price index to the approximate level of the year 1926 as the standard by expanding or contracting bank deposits through the purchase or sale of United States obligations.

8. The Bureau of Labor Statistics would be transferred to the Federal Reserve Bank Board and would conduct monetary and economic research bearing on the policy-performing functions of the Board.

2/ Quoted from section 10 of the bill.

T I A L
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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, NOVEMBER, 1935

Federal Reserve Bank	Month of November 1935 — Earnings from - Discounted bills	Purchased bills	Industrial advances	U. S. Govt. securities	Commitments to make industrial advances	Other sources	Total	Current expenses — Exclusive of cost of F. R. currency	Current expenses — Total	Current net earnings — Total	Current net earnings — Rate on paid-in capital	January to November 1935 — Current net earnings — Total	Rate on paid-in capital	Less accrued dividends and net charges (current) to profit and loss*
											Per cent		Per cent	
Boston	$596	$71	[illegible]07	$198,209	$2,264	$281	$213,228	$150,927	$163,944	$49,284	6.4	$601,414	6.3	$44,467
New York	6,800	384	[illegible]	908,200	9,009	11,424	970,002	595,813	625,142	344,860	8.2	5,045,060	9.6	3,101,569
Philadelphia	534	98	[illegible]	223,671	422	1,344	258,990	183,558	195,557	63,433	6.3	663,995	5.	-135,917
Cleveland	45	89	8,[illegible]	272,960	1,500	5,668	288,691	219,272	226,027	62,664	6.2	828,236	7.	94,899
Richmond	102	35	21,860	146,121	1,038	2,109	171,205	137,159	144,431	26,774	7.1	419,094	9.3	144,500
Atlanta	114	34	5,046	117,953	206	2,023	125,376	113,879	122,347	3,029	.9	302,998	7.6	138,831
Chicago	102	114	9,414	416,192	855	18,817	445,494	262,976	280,426	165,068	16.7	2,564,705	22.2	2,030,036
St. Louis	66	3	1,681	135,502	2,088	5,312	144,652	112,848	121,673	22,979	7.5	372,967	10.3	163,320
Minneapolis	121	3	8,735	104,596	115	229	113,799	99,006	102,121	11,678	4.7	196,791	6.9	47,863
Kansas City	1,332	25	4,334	134,030	588	19,554	159,863	138,393	142,529	17,334	5.4	256,139	7.	43,975
Dallas	84	24	8,724	112,721	496	1,064	123,113	95,938	97,829	25,284	8.1	323,842	8.9	132,885
San Francisco	140	66	3,900	249,555	5,532	4,674	263,867	207,662	214,475	49,392	5.9	572,315	5.9	45,382
TOTAL														
November 1935	10,036	946	150,976	3,019,710	24,113	72,499	3,278,280	2,317,431	2,436,501	841,779	7.9			
October 1935	13,146	12,376	151,367	3,164,069	24,455	62,148	3,427,561	2,329,057	2,479,430	948,131	8.6			
November 1934	23,749	1,668	32,078	3,733,043	4,229	100,530	3,895,297	2,392,880	2,490,193	1,405,104	11.6			
Jan. to Nov. 1935	145,912	34,921	1,329,618	36,694,384	214,448	893,029	39,312,312	25,833,931	27,164,756	12,147,556	9.3	12,147,556	9.3	5,851,810
" " " 1934	1,212,232	139,619	55,602	42,367,852	7,674	1,126,517	44,909,496	26,224,471	27,196,050	17,713,446	13.2	17,713,446	13.2	10,735,881

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DECEMBER 12, 1935

*Exclusive of profits of $4,722,317 on sales of United States Government securities held in Special Investment Account.

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Volume 266
Page 25

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bu

Date December 19, 1935.

To Mr. Hamlin

Subject:

From Mr. Carpenter

GPO 2—8495

There is attached, for your information, a copy of a confidential preliminary draft of the minutes of the meeting of the Governors' Conference held in Washington on December 17, 1935, in connection with the meeting of the Federal Open Market Committee.

VOLUME 266
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CONFIDENTIAL

GOVERNORS' CONFERENCE

Washington, D. C.

December 17, 1935.

The conference was called to order at 5 o'clock P. M.

PRESENT: Governor Calkins, Chairman, and Governors Young, Harrison, Norris, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, and McKinney. Also Deputy Governor Burgess.

Mr. Strater, Secretary.

TOPIC - BOARD OF GOVERNORS BUILDING ACCOUNT. RECONSIDERATION OF ACTION TAKEN AT GOVERNORS CONFERENCE ON OCTOBER 23, 1935.

The Conference of Governors on October 23 voted that amounts levied by the Board of Governors of the Federal Reserve System to purchase a site and erect a building to house the Board, be charged to Profits and Loss.

It was the opinion of some of the Governors that it would be desirable to carry the assessments paid to the Board of Governors for this purpose as an asset account until the Board's building was completed and at that time to give consideration to a program of depreciation or of charge offs. After discussion it was

VOTED to rescind the action taken at the Governors' Conference of October 23, 1935, and that the matter be left in abeyance.

Governors Schaller and Seay voted in the negative and Governor Norris is recorded as not voting.

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TOPIC - REPORT OF THE RETIREMENT COMMITTEE OF THE FEDERAL RESERVE BANKS, DATED DECEMBER 13, 1935.

The Governors' Conference of May 27 and 28, 1935, requested the Retirement Committee of the Retirement System to consider the development of a plan which would make possible the retirement of bank guards at the age of 50 years. The committee's report outlined several methods which would accomplish this purpose and the cost thereof.

As the Governors desired to have an opportunity to study the report carefully it was

VOTED to postpone action on the report until a later meeting.

TOPIC - SHOULD BASIS OF DEPRECIATION RESERVES ON BANK BUILDINGS BE CHANGED SO AS TO WRITE OFF BOOK VALUE IN 40 YEARS INSTEAD OF 50 AS AT PRESENT. IF SO SHOULD 2% ANNUAL DEPRECIATION CHARGE BE CHANGED OR SHOULD A LUMP SUM BE ADDED TO PRESENT RESERVE.

After discussion it was

VOTED that the present practice of writing off bank buildings at 2% per annum be continued, with the understanding that individual Federal Reserve Banks may make special adjustments upon the approval of the Board of Governors of the Federal Reserve System.

TOPIC - SHOULD STEPS BE TAKEN TO CHARGE OFF IMMEDIATELY OR OVER A FIVE YEAR PERIOD, PRIOR LIABILITY UNDER RETIREMENT SYSTEM, AND IF SO, SHOULD AMOUNT OF PRIOR LIABILITY TO BE CHARGED OFF BE ON BASIS OF PRESENT VALUE OR MATURITY VALUE DISCOUNTED AT A GIVEN PER CENT. IF AT A GIVEN PER CENT WHAT SHOULD THAT PER CENT BE.

It was understood by the Governors that rates of contribution by members of the Retirement and by the employing banks as well as the amount of benefits to be paid were determined actuarily upon the basis of 4% interest on the unpaid portion of liability for prior service due from the employing banks over a period of 20 years from the establishment of the Retirement System, therefore the employing banks could not extinguish their liability for prior service by discounting at present value without seriously affecting the solvency of the Retirement System.

It was also understood that a study of the possibility of discounting the maturity value of prior service liability made by the Retirement System indicated that this could be safely done at 2%. After discussion it was

VOTED to recommend that the several Reserve Banks and the Board of Governors of the Federal Reserve System discharge their liability for prior service to the Retirement System over a period of five years at maturity value discounted at 2%.

Governors McKinney and Young are recorded as not voting.

TOPIC - REPORT OF COMMITTEE ON REIMBURSABLE EXPENSES.

Governor Fleming, Chairman of the Committee, submitted an informal report on the progress made by the committee since the last Governors' Conference.

Adjourned at 6:20 p. m.

H. F. STRATER, Secretary.

CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS
TO MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
AT WASHINGTON, D. C., JANUARY 21, 1936

The present holdings of government securities in the System Special Investment Account amount to - - - - - - - - - - - - - - - - - - - $2,223,149,000.

Transactions since the last meeting of the Federal Open Market Committee on December 17 and 18, 1935, were as follows:

(1) Redemption at maturity of

$76,049,000 - Miscellaneous Treasury bills

replaced by purchases in the market as follows:

$73,049,000 - Miscellaneous Treasury bills
3,000,000 - 3 1/4% Treasury notes due September 15, 1937

(2) Exchanges in the market as follows:

$12,459,000 - Treasury bills due March 16, 1936

replaced by purchases in the market of

$12,459,000 - Miscellaneous other Treasury bills

(3) Transfers of participation within the Account:

$10,000,000	to	St. Louis	from	Chicago	on January 3
5,000,000	"	" "	"	New York	" January 3
2,500,000	"	Dallas	"	Chicago	" January 4
2,500,000	"	"	"	New York	" January 4

These increases in participation by St. Louis and Dallas were requested for the purpose of improving their earning positions.

There have been no shifts between maturities of government securities in the Account under the authority voted the executive committee at the last meeting of the Open Market Committee.

On January 15 the net appreciation on holdings of government securities in the Account as represented by the difference between market bid prices and book values amounted to $35,854,759.44 as follows:

Treasury notes	$29,869,316.89
Treasury bonds	5,985,442.55
Net appreciation	$35,854,759.44

There were no operations in bankers acceptances for System Account during the period December 17, 1935 - January 15, 1936.

Attached to this report are the following exhibits:

"A" - Maturity distribution of government securities in the System Special Investment Account at the end of each month, quarterly during 1932-33-34 and monthly thereafter, and on January 15, 1936; and net changes since December 16, 1935.

"B" - Classification of issues held in the System Special Investment Account on December 16, 1935 and January 15, 1936, and net changes by issues during this period.

"C" - Average earning rate on holdings of government securities in System Special Investment Account and the average yield on outstanding Treasury bonds and Treasury notes, 1934, 1935 and 1936 to date. (Chart)

"D" - Estimated amount of earnings and expenses of all Federal reserve banks for year 1936.

"E" - Holdings in System Account of Treasury Note issues and yields at book values and market prices January 14, 1936.

EXHIBIT "A"

MATURITY DISTRIBUTION OF HOLDINGS IN SYSTEM ACCOUNT
END OF EACH MONTH QUARTERLY DURING 1932-33-34 AND MONTHLY THEREAFTER TO DATE
(In millions of dollars)

1932	Within Six Months	Per-cent	Within One Year	Per-cent	Within Two Years	Per-cent	3-5 Years Inc.	Per-cent	Call-able Bonds	Per-cent	Other Bonds	Per-cent	Totals
Jan.	$165	29	$ 355	63	$ 355	63	$ -	-	$212	37	$ -	-	$ 567
Mar.	299	44	475	69	475	69	-	-	212	31	-	-	687
June	744	48	1,106	71	1,173	75	64	4	322	21	-	-	1,559
Sept.	606	37	998	61	1,170	71	134	8	336	21	-	-	1,640
Dec.	779	48	1,021	62	1,203	73	101	6	336	21	-	-	1,640
1933													
Mar.	709	44	856	53	1,090	67	203	12	336	21	-	-	1,629
June	656	37	879	49	1,117	62	335	19	336	19	-	-	1,788
Sept.	706	34	1,102	53	1,278	62	452	22	336	16	-	-	2,066
Dec.	887	40	1,216	55	1,426	64	520	24	252	11	25	1	2,223
1934													
Mar.	799	36	1,034	47	1,287	58	659	30	252	11	25	1	2,223
June	765	34	972	44	1,354	61	550	24	195	9	124	6	2,223
Sept.	654	29	868	39	1,258	56	646	29	195	9	124	6	2,223
Dec.	794	36	953	43	1,405	63	584	26	110	5	124	6	2,223
1935													
Jan.	790	35	950	43	1,394	62	595	27	110	5	124	6	2,223
Feb.	863	39	950	43	1,460	65	529	24	110	5	124	6	2,223
Mar.	747	33	889	40	1,379	62	603	27	56	3	185	8	2,223
Apr.	727	33	1,087	49	1,524	69	519	23	0	0	180	8	2,223
May	584	26	976	44	1,416	64	615	27	0	0	192	9	2,223
June	525	23	887	40	1,281	58	748	33	0	0	194	9	2,223
July	494	22	829	37	1,233	55	796(A)	36	0	0	194	9	2,223
Aug.	454	20	856	38	1,181	53	848(A)	38	0	0	194	9	2,223
Sept.	425	19	850	38	1,193	53	836(A)	38	0	0	194	9	2,223
Oct.	567	25	871	39	1,213	54	816(A)	37	0	0	194	9	2,223
Nov.	575	26	871	39	1,213	54	816(A)	37	0	0	194	9	2,223
Dec.	529	24	913	41	1,165	52	864(A)	39	0	0	194	9	2,223
1936													
Jan. 15	528	24	913	41	1,165	52	864(A)	39	0	0	194	9	2,223
Net Change from Dec.16/35	-18		- 3		0		0		0		0		

(A) Does not include $2,400,000 - 3 3/8 T/B 1940/43 callable 6/15/40

EXHIBIT "B"

CLASSIFICATION OF ISSUES HELD IN THE SYSTEM ACCOUNT ON DECEMBER 16, 1935 AND JANUARY 15, 1936 AND NET CHANGES BY ISSUES DURING THIS PERIOD

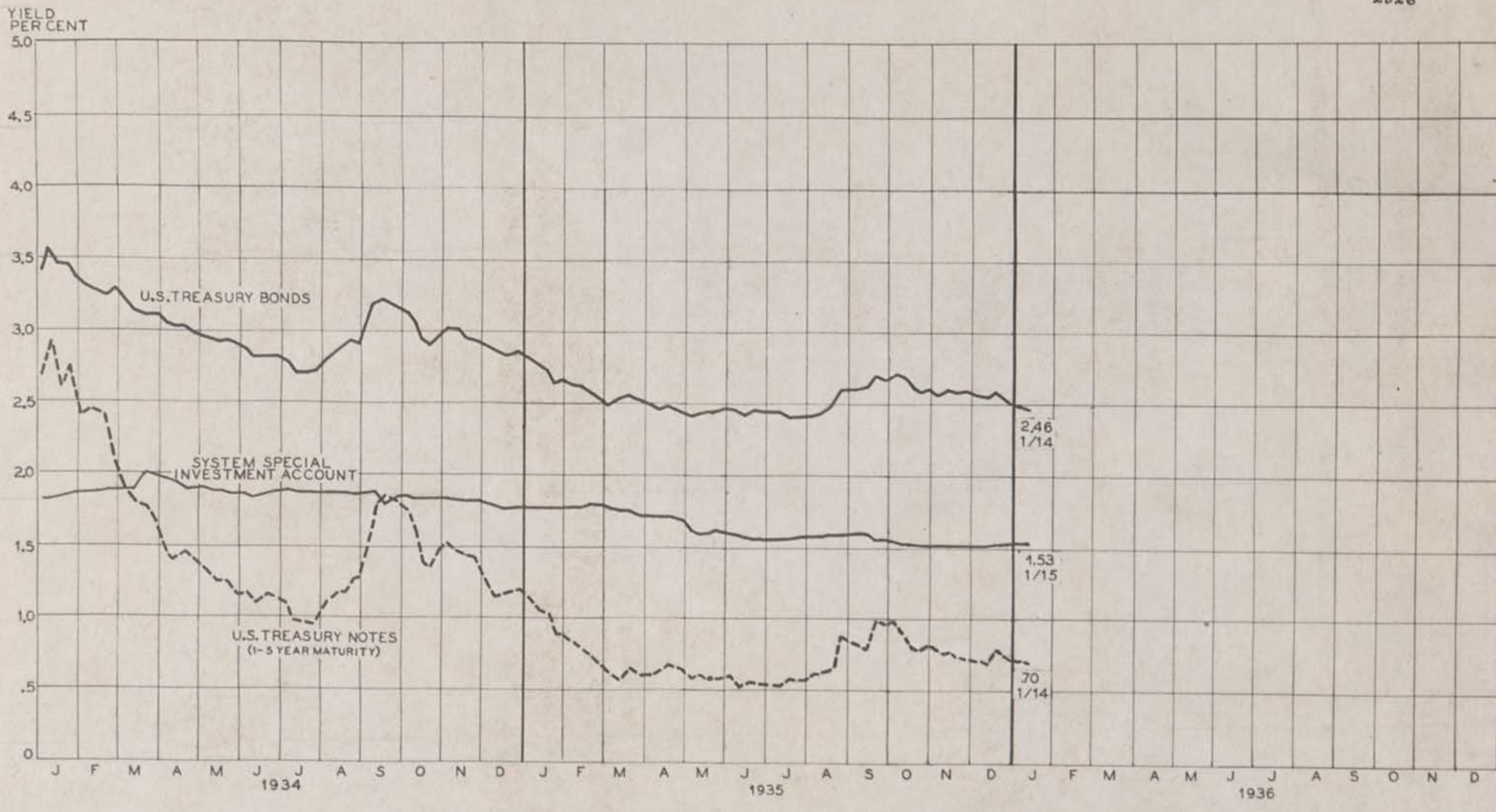
(000 Omitted)

	Holdings Dec.16/35	Holdings Jan.15/36	Increase	Decrease
Total Holdings of Treasury Bills	$ 507,368	$ 504,368	$ --	$ 3,000 Net
TREASURY NOTES				
2 7/8% Treas.Notes due Apr. 15,1936	$ 134,386	$ 134,386	$ -	$ -
1 1/8% " " " June 15,1936	49,053	49,053	-	-
3 1/4% " " " Aug. 1,1936	79,042	79,042	-	-
1 1/2% " " " Sept.15,1936	53,967	53,967	-	-
2 3/4% " " " Dec. 15,1936	92,368	92,368	-	-
3 % " " " Feb. 15,1937	78,590	78,590	-	-
3 % " " " Apr. 15,1937	86,820	86,820	-	-
3 1/4% " " " Sept.15,1937	83,960	86,960	3,000	-
2 5/8% " " " Feb. 1,1938	72,016	72,016	-	-
3 % " " " Mar. 15,1938	94,349	94,349	-	-
2 7/8% " " " June 15,1938	74,324	74,324	-	-
2 1/2% " " " Sept.15,1938	76,831	76,831	-	-
1 1/2% " " " Mar. 15,1939	82,651	82,651	-	-
2 1/8% " " " June 15,1939	90,485	90,485	-	-
1 3/8% " " " Dec. 15,1939	77,076	77,076	-	-
1 5/8% " " " Mar. 15,1940	129,375	129,375	-	-
1 1/2% " " " June 15,1940	121,883	121,883	-	-
1 1/2% " " " Dec. 15,1940	44,156	44,156	-	-
TOTALS	$1,521,332	$1,524,332	$3,000 Net	$ -
TREASURY BONDS				
3 1/4% Treasury Bonds of 1941	$ 44,429	$ 44,429	$ -	$ -
3 3/8% " " " 1940-43	2,400	2,400	-	-
3 3/8% " " " 1941-43	4,500	4,500	-	-
3 1/4% " " " 1943-45	21,500	21,500	-	-
3 1/4% " " " 1944-46	33,121	33,121	-	-
3 3/8% " " " 1943-47	3,000	3,000	-	-
2 3/4% " " " 1945-47	11,750	11,750	-	-
3 % " " " 1946-48	40,700	40,700	-	-
3 1/8% " " " 1949-52	2,015	2,015	-	-
2 7/8% " " " 1955-60	31,034	31,034	-	-
TOTALS	$ 194,449	$ 194,449	$ -	$ -
GRAND TOTALS	$2,223,149	$2,223,149	$ -	$ -

EXHIBIT "C"

Federal [illegible]
of New York
Reports Department
FEB 2, 1935

2826



Average Earning Rate on Holdings of U. S. Government Securities in System Special Investment Account and Average Yield on Outstanding U. S. Treasury Bonds and Treasury Notes

EXHIBIT "D"

ESTIMATED AMOUNT OF EARNINGS AND EXPENSES OF ALL FEDERAL RESERVE BANKS FOR YEAR 1936

(Excluding any profits and/or losses on sales of Government securities)

ESTIMATED EARNINGS		
Government Securities System Account (On basis of holdings and earning rate Jan. 15, 1936)		$34,000,000
Other Sources (On basis of actual earnings for month of Dec. 1935)		6,000,000
ESTIMATED TOTAL EARNINGS		$40,000,000
ESTIMATED TOTAL CURRENT EXPENSES (On basis of actual expenses for year 1935)		31,600,000
ESTIMATED TOTAL NET EARNINGS		$ 8,400,000
ESTIMATED DEDUCTIONS		
Dividends	$7,800,000	
Normal Charge-offs (Excluding reserves for possible losses and deductions for abnormal real estate depreciation)	1,400,000	9,200,000
ESTIMATED NET EARNINGS AVAILABLE FOR SURPLUS, ETC.		DEFICIT $ 800,000

EXHIBIT "E"

HOLDINGS IN SYSTEM ACCOUNT OF TREASURY NOTE ISSUES AND YIELDS AT BOOK VALUES AND MARKET PRICES JANUARY 14, 1936.

Par Value	Issue	Yield at Book Values	Yield at Market Prices
$134,385,500	2 7/8% Treasury Notes due April 15, 1936	2.264%	Minus
49,053,000	1 1/8% " " " June 15, 1936	1.125%	"
79,042,000	3 1/4% " " " Aug. 1, 1936	1.947%	"
53,967,000	1 1/2% " " " Sept. 15, 1936	1.501%	"
92,368,000	2 3/4% " " " Dec. 15, 1936	2.337%	"
78,590,000	3 % " " " Feb. 15, 1937	1.099%	"
86,820,000	3 % " " " April 15, 1937	1.927%	.02%
86,960,000	3 1/4% " " " Sept. 15, 1937	2.261%	.12%
72,016,000	2 5/8% " " " Feb. 1, 1938	1.811%	.28%
94,349,000	3 % " " " March 15, 1938	2.785%	.39%
74,324,000	2 7/8% " " " June 15, 1938	1.784%	.56%
76,831,100	2 1/2% " " " Sept. 15, 1938	2.448%	.68%
82,651,000	1 1/2% " " " March 15, 1939	1.428%	1.03%
90,485,000	2 1/8% " " " June 15, 1939	1.785%	1.09%
77,075,900	1 3/8% " " " Dec. 15, 1939	1.219%	1.16%
129,375,000	1 5/8% " " " March 15, 1940	1.629%	1.27%
121,883,200	1 1/2% " " " June 15, 1940	1.496%	1.27%
44,156,000	1 1/2% " " " Dec. 15, 1940	1.385%	1.33%

CONFIDENTIAL

PRELIMINARY MEMORANDUM FOR THE
FEDERAL OPEN MARKET COMMITTEE,
JANUARY 21, 1936.

At the meeting of the Federal Open Market Committee on December 17 a resolution was adopted to the following effect:

> That while there had been continued improvement in business and financial conditions, the country was still short of a full recovery and there was no reason for reversal of the easy money policy;
>
> That, however, the amount of excess reserves constituted a source of danger, and that action should therefore be taken as soon as possible without undue risk to absorb a part of these excess reserves as a safeguard against possible dangers and not as a policy of credit restraint;
>
> That two principal methods had been discussed: (a) permitting Treasury bills to mature without replacement, and (b) raising the reserve requirements; and that some members of the Committee would prefer the employment of method (a) and others would prefer method (b);
>
> That, however, because both groups felt so strongly that some early action should be taken, the Committee as a whole recommended that the Board of Governors of the Federal Reserve System should consider some early and substantial increase in the present reserve requirements.
>
> The resolution concluded with the following statement:
>
> "The Committee refrains from recommending or suggesting any precise time or percentage of increase or the classes of banks to be affected believing that the time or amount and character of action would, of course, have to be determined by the Board of Governors in the light of all the conditions as they appear at the time action is actually taken, not only business and credit conditions but also the banking situation particularly as it may be affected by the Government's fiscal policy."

Upon adjournment it was further resolved to reconvene at or about the middle of January. It appeared at that time that:

(1) the effects of the reduction, through Treasury operations, of the excess reserves by about $600,000,000 would be known;

(2) the business outlook might be clearer, having in mind especially the possibility of a seasonal recession;

(3) the budgetary estimates for the fiscal year 1937 and the nature of the budget message would be known.

I. Excess Reserves.

Excess reserves of member banks, after showing the anticipated shrinkage from $3,300,000,000 to $2,700,000,000 around the time of the December meeting of the Committee, have since shown a renewed increase and are now about $3,000,000,000. The following table indicates the factors that were responsible for the December shrinkage and for the subsequent increase in excess reserves.

Gain or Loss to Member Bank Reserves Through Changes In:	Dec. 11 to 24	Dec. 24 to Jan. 8
Treasury cash and deposits in F. R. Banks - - -	- 598	+ 107
Money in circulation - - - - - - - - - - - - - - -	- 150	+ 208
Treasury and National Bank currency - - - - - -	+ 17	+ 12
Gold stock -	+ 46	+ 30
Federal Reserve Credit - - - - - - - - - - - - -	+ 49	- 47
Miscellaneous deposits, etc., in F. R. Banks - -	+ 25	+ 7
Net Change in Reserves - - - - - - - - - - -	- 611	+ 317

The seasonal return flow of currency is still under way and may be expected to contribute an additional 100 to 150 million to the volume of excess reserves. The amount of Treasury cash and deposits with Federal Reserve banks is still nearly $500,000,000 more than on December 11, but it is understood to be the policy of the Treasury to maintain its balances at about the present level, so that no further substantial increase in excess reserves is to be expected from that source in the near future.

The inflow of gold from abroad, which has been the principal factor in the growth of excess reserves during the past two years, appears to have largely ceased for the time being, and at the moment foreign exchanges are strong, reflecting at least in part a recurrence of doubts concerning the future value of the dollar. In view of the continued unsettled conditions throughout the world, however, the prospect for gold movements remains obscure, and there appears to be as good reason for expecting a further inflow as for expecting any substantial withdrawal of gold from the United States.

The reduction of excess reserves by the Treasury operation had no observable effect upon the money market or upon business or financial sentiment. For example, prices of government bonds and notes and of corporate bonds showed virtually no change. This fact, so far as it goes, would appear to bear out the view previously expressed in discussions of the Committee that excess reserves of such very great magnitude as we have had may be reduced in part without having any mechanical effect and without any adverse psychological effect in so far as it is clearly understood that the object of the reduction is not credit restraint. On the other hand, it should be pointed out (a) that the amount of the reduction was not large, relatively to the total, and (b) that it was regarded as of a purely technical and temporary nature.

II. Business and Financial Conditions.

After a period of hesitation, the security markets have shown renewed strength, and all classes of bonds except the lower grade railroad bonds have risen to the highest levels in a number of years. The best grade corporation securities, in fact, have risen to levels that had not previously been attained for 30 years. The Government bond market also has been fairly strong, although prices have not risen above the levels reached last summer.

Industrial activity is beginning the new year at a relatively high level. Activity in the automobile industry, which was one of the principal factors in the autumn expansion, has lost momentum and can hardly be expected to do better than hold its present level for the next couple of months, but construction contracts have shown an unseasonal rise recently and there has been some expansion of railroad purchases of rails and other track supplies and of rolling stock. The textile industry continues to maintain a high rate of operations, but in cotton goods the volume of new orders is reported to have been below production for a number of weeks, so that some slackening in activity during the next few months can hardly be avoided unless there is a substantial revival of new business. Such a revival, however, is considered at least a possibility when the situation following the Supreme Court decision on the A. A. A. becomes clarified.

It may be that in the next few weeks comparisons with a year ago will show smaller increases than have recently prevailed, owing to the fact that at this time last year business activity was increasing to a peak reached in February. Aside from this possibility, which is of minor importance, there does not appear to be any better basis than there was a month ago for forecasting whether or when a business recession will occur or of what magnitude it might be if it does occur.

III. The Budget for 1937.

In view of earlier discussions emphasizing the advantages of coordinating any program regarding excess reserves with some definite clarification of fiscal policy looking toward a definite program of tapering off the budgetary deficits, and in view of the fact that the Committee's resolution of December 17 makes reference to the possible effects of government fiscal policy upon any action that might be taken with regard to altering the present reserve requirements of member banks, the budgetary estimates and the budget message of January 6 are of special interest. The preliminary budget shows an estimated deficit for the fiscal year 1937 of $1,098,000,000 as compared with $3,235,000,000 for the fiscal year 1936. This is a substantial apparent reduction of the yearly deficit, but:

(a) While the budget allowance for "Recovery and Relief" is $1,103,000,000 as against $2,869,000,000 in 1936, this allowance includes only appropriations already made. The budget message stated that this allowance would probably have to be increased when a definite relief program is formulated, and the Secretary of the Treasury in his statement before the Senate Committee on the bonus bill is reported as including an estimate of an additional appropriation of $2,000,000,000 for relief expenditures.

(b) The budget includes an estimate of $619,000,000 of expenditures under the Agricultural Adjustment Act, and includes under Revenue, processing taxes estimated at $547,000,000. These items, in view of the Supreme Court decision on the A. A. A., no longer have any meaning. There is the further question of a refund of processing taxes previously collected.

(c) There is no reference to the possibility of bonus legislation, but both the bill passed by the House and the bill reported in the Senate would clearly require a considerable amount of cash disbursements.

In view of these considerations it does not seem possible to conclude that there is any assurance in the new budgetary estimates of a clear-cut policy of tapering off and terminating the budgetary deficits within a definite period of time.

Conclusion.

From this brief review it appears that the main question before the Committee at its present meeting is whether, in the light of the events since the meeting of December 17, it is more or less inclined than at that time to urge early action for reducing excess reserves, or is inclined to make its recommendation any more specific as to amounts or scope of application.

1/15/36.

P103

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 19, 1935.

To Mr. Hamlin

Subject:

From Mr. Carpenter

2—8495

There is attached a copy of the preliminary memorandum prepared by the Chairman of the Federal Open Market Committee for the meeting of the Committee on December 17, 1935, together with a copy of a report of open market operations made to the meeting.

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PAGE 37

12/13/35

PRELIMINARY MEMORANDUM FOR THE
FEDERAL OPEN MARKET COMMITTEE,
December 17, 1935.

During the past two months reserves of member banks have risen more than $500,000,000 further to new high levels, more than double reserve requirements. Excess reserves total about $3,300,000,000. As the accompanying diagram indicates, this further increase in excess reserves and practically all of the preceding accumulation has been due to the heavy inflow of gold from abroad. The total movement for the year to date is approximately $1,700,000,000, compared with $1,200,000,000 for the entire year 1934.

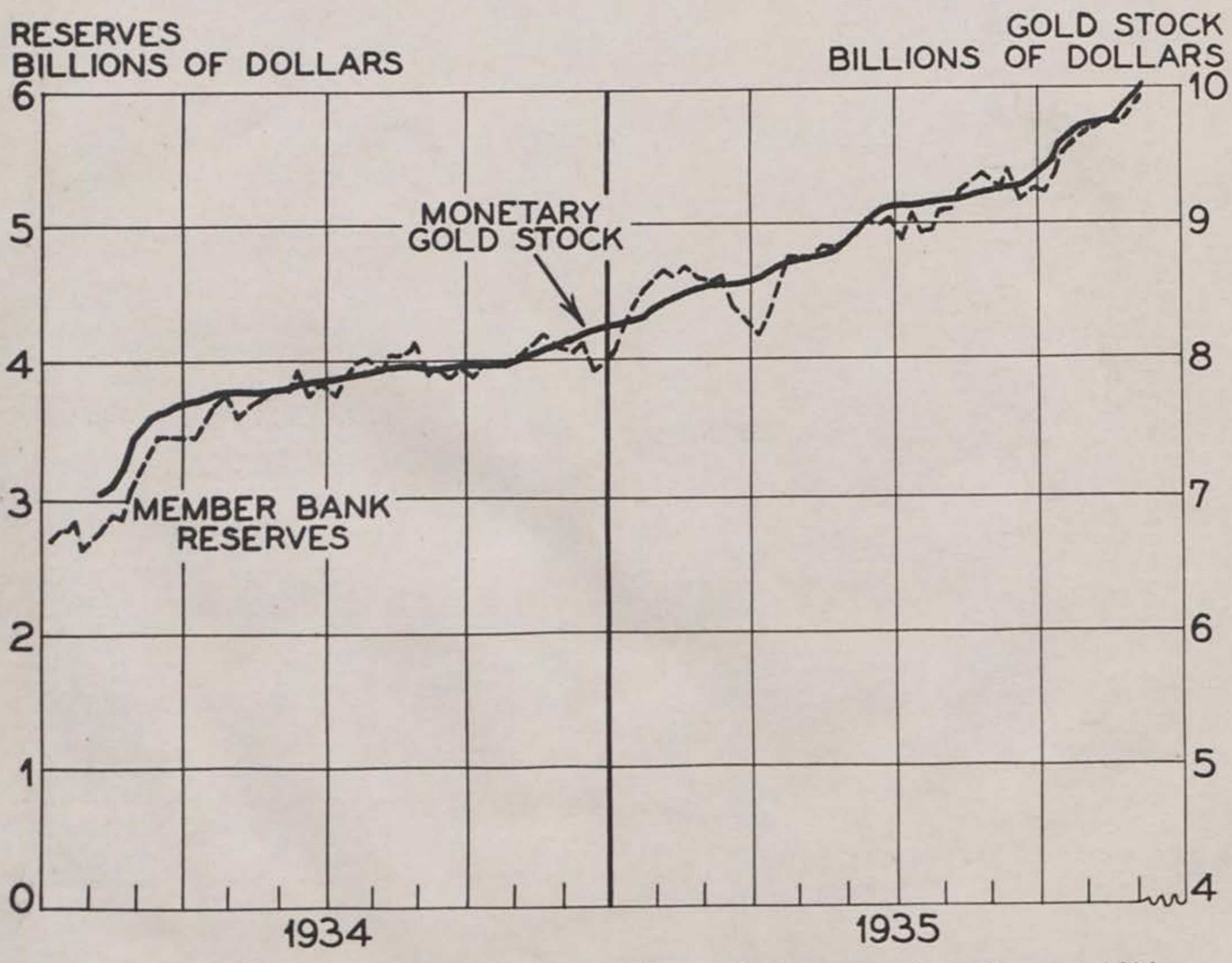
The recent gold movement reflects capital movements to this country since the balance of trade and services is practically neutral. This movement has consisted partly of American capital returning from abroad, partly of foreign short term money seeking escape from European uncertainties, and partly of foreign capital seeking investment in securities. Some of the funds which have come here are of a volatile sort which might be withdrawn rapidly with changed conditions, but no withdrawal sufficient to absorb any considerable proportion of excess reserves would appear likely. Under present conditions further capital imports are more probable.

For the time being, the gold inflow appears to have halted, and during the next two weeks holiday currency requirements together with a $600,000,000 increase in Treasury balances in the Reserve Banks due to cash payments for the new issues on December 16 will probably cause some reduction in member bank excess reserves, but after Christmas the usual return flow of currency to the banks and Treasury disbursements are likely to restore excess reserves to something like present levels.

<u>Expansion of Deposits and Bank Credit</u>

Adjusted demand deposits in weekly reporting member banks have shown further substantial increases during the past two months and are now more than 20 per cent larger than a year ago. In addition, there has been a further accumulation

Federal Reserve Bank
of New York
Reports Department
Oct 29, 1935
2947



Increase in Monetary Gold Stock and Member Bank Reserves since January 1934 of idle bank balances in the city banks. In New York City, for instance, balances of out-of-town banks are now close to $2,000,000,000, as compared with excess reserves of about $1,450,000,000. Even after allowing for normal working balances of something like $600,000,000 to $700,000,000, therefore, it appears that, in effect, most of the excess reserves now held by the large New York banks actually represent the idle funds of correspondent banks throughout the country.

The growth of demand deposits reflects in part the inflow of capital from abroad, but it also reflects to some extent credit expansion in the reporting banks. Heretofore credit expansion has been largely in the form of increased holdings of United States Government securities, but recently there have been some slight indications of a tendency toward credit expansion through other channels, or at least the discontinuance of liquidation. Security loans, which at the end of October reached a new low point for many years past, have since shown a moderate increase, due to temporary borrowings by Government security dealers. Other loans to customers have shown some further increase since October, largely seasonal in character, and on December 4 were $225,000,000 above the low point of July, 1931, and holdings of purchased acceptances and commercial paper have increased $50,000,000 since July.

Recent Progress Toward Business Recovery

Recent data on business activity have indicated one of the strongest upward movements in general business activity since the summer of 1933. Electric power production has risen to levels even higher than in 1929; railroad car loadings, which until recently had tended to lag, have shown substantial increases over a year previous for a number of weeks; steel mill activity for the past four months has averaged about twice as high as a year ago; and the volume of residential building contracts also has been about double that of a year previous. Retail trade, however, has not shown proportionate gains, due in part to an autumn season that was unfavorable for apparel sales.

To some extent the recent high level of industrial activity is clearly due to the moving forward of seasonal activity in the automobile industry by two months, and to that extent some recession after the turn of the year is a possibility

Furthermore, comparison during the next two or three months will be with a period of rising business activity last year, so that even if present levels of activity were maintained, the margin of increase over a year previous might be expected to show a considerable shrinkage. On the other hand, the expansion of privately financed construction, especially in the residential field, indicates progress toward recovery in the general field in which recovery has been inclined to lag - the heavy industries. Recovery in those industries has been indicated also by a large increase in purchases of industrial equipment to make up for the obsolescence that developed during the depression. Machine tool sales, for example, have risen during the past few months to the highest levels since 1929. Expenditures on railroad equipment have not yet reached large volume, but the improvement in railroad earnings of the past few months has been followed by reports of considerably increased prospective expenditures on rolling stock and track supplies in the coming months.

While the increase in business volume has been reflected in some further reemployment of workers, the number of unemployed still continues very substantial, possibly in the neighborhood of 10,000,000, although the figures are doubtful. A further reduction in unemployment appears dependent on a considerable further revival in the durable goods industries.

Security Markets

Two months ago the government security market was just recovering from the slump of August and September. It was also facing with some apprehension the refunding operations of December and the possible raising of bonus money in January. As a consequence the market was nervous and unsettled. Since that time the December financing has been carried through successfully and the Treasury put in possession of a large cash balance. While the prices of government securities are not greatly different from those of the middle of October the market is more active and steadier.

Prices of the highest grade corporation bonds have risen slightly further during the past two months to new high levels for many years, but in these securities, as well as in Government bonds, the rise since the early part of the year has been quite moderate. Prices of lower grade bonds have advanced considerably after showing some weakness for several months, and in general are now around their highest levels since 1931.

Accompanying the further rise in prices of outstanding issues, new corporate and municipal financing has continued at a rate not far below that of the summer months. As in previous months this financing has consisted largely of refunding issues, and the amount of financing to supply new capital for new undertakings is still very small. There have been a few indications, however, of greater inclination on the part of industries to raise additional capital through the sale of new securities, notably the announcement of a large steel company that it plans to obtain $100,000,000 - $40,000,000 within the near future - for expansion and improvements of its plants.

The stock market has continued to work toward somewhat higher price levels, but at a slower pace and with some interruptions.

Summary

Changes since the last meeting of the committee may be summarized by saying that excess reserves have increased further due to gold imports; bank deposits and credit are tending upward; business has shown marked improvement; but that even so unemployment is still very large and further recovery awaits greater improvement in the durable goods industries. The government security market is more stable, and prices of corporation bonds have risen further. New corporate and municipal issues continue, but so far are restricted mainly to refunding, and the durable goods industries are not yet receiving the benefit of financing for new capital on any scale.

CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS
TO MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
AT WASHINGTON, D. C., DECEMBER 17, 1935

The present holdings of Government securities in the System Special Investment Account amount to - - - - - - - - - - - - - - - - - - - $2,223,149,000.

Transactions since the last meeting of the Federal Open Market Committee on October 22, 23 and 24 were as follows:

(1) Redemption at maturity of

$115,125,000 - Miscellaneous Treasury bills

replaced by purchases in the market as follows:

$106,109,000	-	Miscellaneous Treasury bills
4,405,000	-	3 % T/N due 2/15/37
1,561,000	-	2 5/8% " " 2/ 1/38
500,000	-	3 % " " 3/15/38
2,550,000	-	2 1/8% " " 6/15/39

(2) Exchanges in the market as follows:

(a) To improve maturity distribution

	$ 4,000,000	-	Miscellaneous Treasury bills
	1,500,000	-	3 % T/N due 2/15/37
	1,000,000	-	3 % " " 3/15/38
	128,800	-	3 1/4% Tr. Bds. of 1944-46
for	6,500,000	-	Miscellaneous Treasury bills
	128,800	-	3 1/4% Tr. Bds. of 1941

(b) In anticipation of maturity

$ 18,465,000 - 2 1/2% T/N due 12/15/35

for 18,465,000 - Miscellaneous Treasury bills

(3) Exchange in the market at maturity

$ 44,156,000 - 2 1/2% T/N due 12/15/35

for 44,156,000 - 1 1/2% T/N due 12/15/40

While the terms of the Banking Act of 1935 probably do not prohibit a direct exchange with the Treasury, this operation was carried out in the market through three of the large dealers inasmuch as the Executive Committee believed it wise to avoid creating any precedent in this connection without further consideration by the System of the principles involved.

(4) Transfer of participation within the Account

$2,500,000 - to Dallas from New York on November 6, reversing in part the transaction of September 4 when New York took over $5,000,000 from Dallas to aid their reserve position.

Under the authority voted the Executive Committee at the meeting of the Federal Open Market Committee on October 23 to make shifts between maturities in the Account up to $300,000,000 within the limitations prescribed, and as approved by the Board of Governors on November 29, net shifts in the Account amount to $47,767,000, as represented by the net decrease to date in the amount of holdings in the Account maturing within two years. The replacement of $44,156,000 of a total of $62,621,000 - 2 1/2 per cent Treasury notes maturing on December 15 with the new issue of 1 1/2 per cent five-year notes due December 15, 1940, accounts almost entirely for this decrease. The holdings of bonds in the Account remained unchanged during this period at $194,449,300. These changes are reflected in Exhibit "A" attached.

On October 23 the Investment Account of the Federal Reserve Bank of New York held $23,806,000 intermediate and long-term issues of Treasury bonds. Improved market conditions in recent weeks afforded opportunity to exchange these bonds in the market for shorter maturities consisting principally of Treasury notes. The maturity distribution of holdings in Investment Accounts of individual reserve banks is reflected in Exhibit "G".

Profit realized on sales of Government securities in the System Account this year to December 11 amounts to $4,786,085.33. Each bank's pro rata share in this profit as held in Suspense Account on that date was as follows:

Boston	$ 337,959.84	Chicago	$ 680,662.70
New York	1,350,781.65	St. Louis	228,396.78
Philadelphia	364,039.22	Minneapolis	139,112.36
Cleveland	464,441.72	Kansas City	223,443.18
Richmond	244,559.39	Dallas	140,083.93
Atlanta	202,815.15	San Francisco	409,789.41

The net appreciation on the holdings in the Account as represented by the difference between market bid prices and book values as of December 11 amounted to $33,421,269, as follows:

United States Treasury	Bonds	$4,604,353
" " "	Notes	28,816,916

There were no operations in bankers acceptances for System Account during the period October 16 - December 11, 1935.

Attached to this report are the following exhibits:

"A" - Maturity distribution of holdings of government securities in System Account at the end of each month 1932, 1933, 1934 and 1935 to December 16, and net changes since October 16, 1935.

"B" - Classification of issues held in the System Account on October 16 and December 16, and net changes by issues during this period.

"C" - (1) Participation by Federal Reserve banks in System Special Investment Account and (2) total holdings of government securities by Federal Reserve banks close of business December 11 and the amount of (1) and (2) over or short of pro rata share based on ratio of each bank's expenses, dividends and charge-offs for 1934 to total for the System.

"D" - (1) Participation by Federal Reserve banks in System Special Investment Account and (2) total holdings of government securities by Federal Reserve banks close of business December 11, 1935, and the amount of (1) and (2) over or short of pro rata share based on ratio of reserves in excess of amount required for a 55% ratio.

"E" - Earnings of all Federal Reserve banks for the eleven months ended November 30, 1935.

"F" - Chart showing average earning rate on holdings of United States Government securities in System Special Investment Account and average yield on outstanding Treasury bonds and Treasury notes, 1934 and 1935 to date.

"G" - Summary of maturity distribution of holdings of Government securities in System Account and the accounts of individual Reserve Banks.

EXHIBIT "A"

MATURITY DISTRIBUTION OF HOLDINGS IN SYSTEM ACCOUNT
END OF EACH MONTH - 1932-33-34-35
(In millions of dollars)

1932	Within Six Months	Per-cent	Within One Year	Per-cent	Within Two Years	Per-cent	3-5 Years Inc.	Per-cent	Call-able Bonds	Per-cent	Other Bonds	Per-cent	Totals
Jan.	$165	29	$ 355	63	$ 355	63	$ -	-	$212	37	$ -	-	$ 567
Feb.	191	32	375	64	375	64	-	-	212	36	-	-	587
Mar.	299	44	475	69	475	69	-	-	212	31	-	-	687
Apr.	583	57	778	76	779	76	-	-	239	24	-	-	1,018
May	716	51	1,058	75	1,115	79	-	-	290	21	-	-	1,405
June	744	48	1,106	71	1,173	75	64	4	322	21	-	-	1,559
July	733	45	1,098	67	1,167	71	132	8	336	21	-	-	1,635
Aug.	622	38	1,029	63	1,194	73	110	6	336	21	-	-	1,640
Sept.	606	37	998	61	1,170	71	134	8	336	21	-	-	1,640
Oct.	651	40	1,051	64	1,229	75	75	4	336	21	-	-	1,640
Nov.	765	47	1,046	64	1,227	75	77	4	336	21	-	-	1,640
Dec.	779	48	1,021	62	1,203	73	101	6	336	21	-	-	1,640
1933													
Jan.	644	41	903	58	1,107	71	116	7	336	22	-	-	1,559
Feb.	577	36	856	53	1,090	67	203	12	336	21	-	-	1,629
Mar.	709	44	856	53	1,090	67	203	12	336	21	-	-	1,629
Apr.	570	35	725	45	958	59	335	20	336	21	-	-	1,629
May	543	32	823	49	962	57	384	23	336	20	-	-	1,682
June	656	37	879	49	1,117	62	335	19	336	19	-	-	1,788
July	659	36	903	50	1,143	63	341	19	336	18	-	-	1,820
Aug.	621	32	1,025	53	1,191	62	394	21	336	17	-	-	1,921
Sept.	706	34	1,102	53	1,278	62	452	22	336	16	-	-	2,066
Oct.	860	39	1,257	57	1,443	66	498	23	252	11	-	-	2,193
Nov.	845	43	1,235	56	1,435	65	511	23	252	11	25	1	2,223
Dec.	887	40	1,216	55	1,426	64	520	24	252	11	25	1	2,223
1934													
Jan.	887	40	1,216	55	1,426	64	520	24	252	11	25	1	2,223
Feb.	987	44	1,190	54	1,415	64	531	24	252	11	25	1	2,223
Mar.	799	36	1,034	47	1,287	58	659	30	252	11	25	1	2,223
Apr.	730	33	1,008	45	1,476	67	488	21	195	9	64	3	2,223
May	717	32	991	44	1,475	66	489	22	195	9	64	3	2,223
June	765	34	972	44	1,354	61	550	24	195	9	124	6	2,223
July	732	33	939	42	1,321	59	583	26	195	9	124	6	2,223
Aug.	705	32	1,018	46	1,365	61	539	24	195	9	124	6	2,223
Sept.	654	29	868	39	1,258	56	646	29	195	9	124	6	2,223
Oct.	749	34	964	43	1,342	60	647	29	110	5	124	6	2,223
Nov.	752	34	968	43	1,349	60	640	29	110	5	124	6	2,223
Dec.	794	36	953	43	1,405	63	584	26	110	5	124	6	2,223
1935													
Jan.	790	35	950	43	1,394	62	595	27	110	5	124	6	2,223
Feb.	863	39	950	43	1,460	65	529	24	110	5	124	6	2,223
Mar.	747	33	889	40	1,379	62	603	27	56	3	185	8	2,223
Apr.	727	33	1,087	49	1,524	69	519	23	0	0	180	8	2,223
May	584	26	976	44	1,416	64	615	27	0	0	192	9	2,223
June	525	23	887	40	1,281	58	748	33	0	0	194	9	2,223
July	494	22	829	37	1,233	55	796(A)	36	0	0	194	9	2,223
Aug.	454	20	856	38	1,181	53	848(A)	38	0	0	194	9	2,223
Sept.	425	19	850	38	1,193	53	836(A)	38	0	0	194	9	2,223
Oct.	567	25	871	39	1,213	54	816(A)	37	0	0	194	9	2,223
Nov.	575	26	871	39	1,213	54	816(A)	37	0	0	194	9	2,223
Dec.11	541	24	868	39	1,209	54	820(A)	37	0	0	194	9	2,223
" 16	497	22	916	41	1,165	52	864(A)	39	0	0	194	9	2,223
Net Change from Oct. 16	-69		+42		-48		+48		0		0		0

(A) Does not include $2,400,000 - 3 3/8 T/B 1940/43 callable 6/15/40

EXHIBIT "B"

CLASSIFICATION OF ISSUES HELD IN THE SYSTEM ACCOUNT ON OCTOBER 16, 1935 AND DECEMBER 16, 1935 AND NET CHANGES BY ISSUES DURING THIS PERIOD

(000 Omitted)

	Holdings Oct. 16	Holdings Dec. 16	Increase	Decrease
Total Holdings of Treasury Bills	$ 495,419	$ 507,368	$11,949 Net	-
TREASURY NOTES				
2 1/2% Treas. Notes due Dec. 15,1935	$ 62,621	$ -	$ -	$62,621
2 7/8% " " " Apr. 15,1936	134,386	134,386	-	-
1 1/8% " " " June 15,1936	49,053	49,053	-	-
3 1/4% " " " Aug. 1,1936	79,042	79,042	-	-
1 1/2% " " " Sept. 15,1936	53,967	53,967	-	-
2 3/4% " " " Dec. 15,1936	92,368	92,368	-	-
3 % " " " Feb. 15,1937	75,685	78,590	2,905	-
3 % " " " Apr. 15,1937	86,820	86,820	-	-
3 1/4% " " " Sept. 15,1937	83,960	83,960	-	-
2 5/8% " " " Feb. 1,1938	70,455	72,016	1,561	-
3 % " " " Mar. 15,1938	94,849	94,349	-	500
2 7/8% " " " June 15,1938	74,324	74,324	-	-
2 1/2% " " " Sept. 15,1938	76,831	76,831	-	-
1 1/2% " " " Mar. 15,1939	82,651	82,651	-	-
2 1/8% " " " June 15,1939	87,935	90,485	2,550	-
1 3/8% " " " Dec. 15,1939	77,076	77,076	-	-
1 5/8% " " " Mar. 15,1940	129,375	129,375	-	-
1 1/2% " " " June 15,1940	121,883	121,883	-	-
1 1/2% " " " Dec. 15,1940	-	44,156	44,156	-
TOTALS	$1,533,281	$1,521,332	$ -	$11,949 Net
TREASURY BONDS				
3 1/4% Treasury Bonds of 1941	$ 44,300	$ 44,429	$ 129	$ -
3 3/8% " " " 1940-43	2,400	2,400	-	-
3 3/8% " " " 1941-43	4,500	4,500	-	-
3 1/4% " " " 1943-45	21,500	21,500	-	-
3 1/4% " " " 1944-46	33,250	33,121	-	129
3 3/8% " " " 1943-47	3,000	3,000	-	-
2 3/4% " " " 1945-47	11,750	11,750	-	-
3 % " " " 1946-48	40,700	40,700	-	-
3 1/8% " " " 1949-52	2,015	2,015	-	-
2 7/8% " " " 1955-60	31,034	31,034	-	-
TOTALS	$ 194,449	$ 194,449	$ -	$ -
GRAND TOTALS	$2,223,149	$2,223,149	$ -	$ -

EXHIBIT "C"

(1) PARTICIPATION BY FEDERAL RESERVE BANKS IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT AND (2) TOTAL HOLDINGS OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS CLOSE OF BUSINESS DECEMBER 11, 1935 AND THE AMOUNT OF (1) AND (2) OVER OR SHORT OF PRO RATA SHARE BASED ON RATIO OF EACH BANK'S EXPENSES, DIVIDENDS AND CHARGE-OFFS FOR 1934 TO THE TOTAL FOR THE SYSTEM

(000 Omitted)

	Participations in System Account (A)	Ratio of Holdings in System Account (B)	Ratio of Expenses, Dividends & Charge-offs Year 1934 (C)	Participations (+) Over or (-) Short of Pro Rata Share Based on Ratios in Col. C (D)	Total Holdings (Portfolio and Participation in System Account) (E)	Ratio of Total Holdings (F)	Total Holdings (+) Over or (-) Short of Pro Rata Share Based on Ratios in Col. C (G)
Boston	$ 156,982	7.06%	6 3/4%	$ 6,919+	$ 157,671	6.49%	$ 6,210-
New York	619,818	27.88%	28 %	2,664-	740,114	30.49%	60,312+
Philadelphia	173,734	7.81%	9 %	26,349-	177,120	7.29%	41,387-
Cleveland	218,024	9.81%	9 3/4%	1,267+	218,024	8.98%	18,693-
Richmond	116,715	5.25%	5 1/4%	0	116,716	4.81%	10,747-
Atlanta	94,209	4.24%	4 %	5,283+	94,209	3.88%	2,905-
Chicago	292,948	13.18%	11 1/2%	37,286+	355,689	14.65%	76,485+
St. Louis	107,700	4.84%	4 3/4%	2,100+	108,200	4.46%	7,123-
Minneapolis	68,054	3.06%	3 3/4%	15,314-	75,073	3.09%	15,972-
Kansas City	106,659	4.80%	5 1/4%	10,056-	106,741	4.40%	20,722-
Dallas	68,975	3.10%	3 3/4%	14,393-	78,975	3.25%	12,070-
San Francisco	199,331	8.97%	8 1/4%	15,921+	199,331	8.21%	968-
TOTALS	$2,223,149	100 %	100 %	$68,776 Adj.	$2,427,863	100 %	$136,797 Adj.

NOTE: Charge-offs do not include reserves for possible losses, Self-Insurance or abnormal real estate depreciation.

EXHIBIT "D"

(1) PARTICIPATION BY FEDERAL RESERVE BANKS IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT AND (2) TOTAL HOLDINGS OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS CLOSE OF BUSINESS DECEMBER 11, 1935 AND THE AMOUNT OF (1) AND (2) OVER OR SHORT OF PRO RATA SHARE BASED ON RATIO OF RESERVES IN EXCESS OF AMOUNT REQUIRED FOR A 55% RATIO

	(A) Ratio of Reserves in Excess of Amount Required For a 55% Ratio	(B) Partici-pations in System Account	(C) Participations (+) Over or (-) Short of Pro Rata Share Based on Ratios in Column A	(D) Total Holdings (Portfolio and Participation in System Acct.)	(E) Total Holdings (+) Over or (-) Short of Pro Rata Share Based on Ratios in Column A
Boston	7 3/4%	$ 156,982	$ 15,312-	$ 157,671	$ 30,488-
New York	48 1/4%	619,818	452,851-	740,114	431,330-
Philadelphia	3 3/4%	173,734	90,366+	177,120	86,076+
Cleveland	5 1/4%	218,024	101,309+	218,024	90,561+
Richmond	2 1/4%	116,715	66,694+	116,716	62,089+
Atlanta	1 1/2%	94,209	60,862+	94,209	57,791+
Chicago	20 3/4%	292,948	168,356-	355,689	148,093-
St. Louis	2 1/4%	107,700	57,679+	108,200	53,573+
Minneapolis	1 1/2%	68,054	34,707+	75,073	38,655+
Kansas City	1 3/4%	106,659	67,754+	106,741	64,254+
Dallas	1 %	68,975	46,743+	78,975	54,696+
San Francisco	4 %	199,331	110,405+	199,331	102,216+
TOTALS	100 %	$2,223,149	$636,519 Adj.	$2,427,863	$609,911 Adj.

EXHIBIT "E"

EARNINGS OF ALL FEDERAL RESERVE BANKS
FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1935

Earnings do not include $4,786,085.33 profits (as of December 11, 1935) on security sales, now held in Suspense Account.

	Gross Earnings	Current Expenses and Net Deductions from Current Net Earnings	Available for Depreciation Allowances, Reserves and Surplus
BOSTON	$ 2,505,975	$ 2,461,508	$ 44,467
NEW YORK	12,153,542	9,051,973	3,101,569
PHILADELPHIA	2,851,423	2,987,340	135,917 (A)
CLEVELAND	3,376,778	3,281,879	94,899
RICHMOND	1,985,541	1,841,041	144,500
ATLANTA	1,541,499	1,402,668	138,831
CHICAGO	5,719,291	3,689,255	2,030,036
ST. LOUIS	1,701,377	1,538,057	163,320
MINNEAPOLIS	1,329,186	1,281,323	47,863
KANSAS CITY	1,790,195	1,746,220	43,975
DALLAS	1,379,300	1,246,415	132,885
SAN FRANCISCO	2,978,205	2,932,823	45,382
TOTALS	$39,312,312	$33,460,502	$5,851,810

(A) Deficit

Federal Reserve Bank
of New York
Reports Department
FEB 2, 1936.

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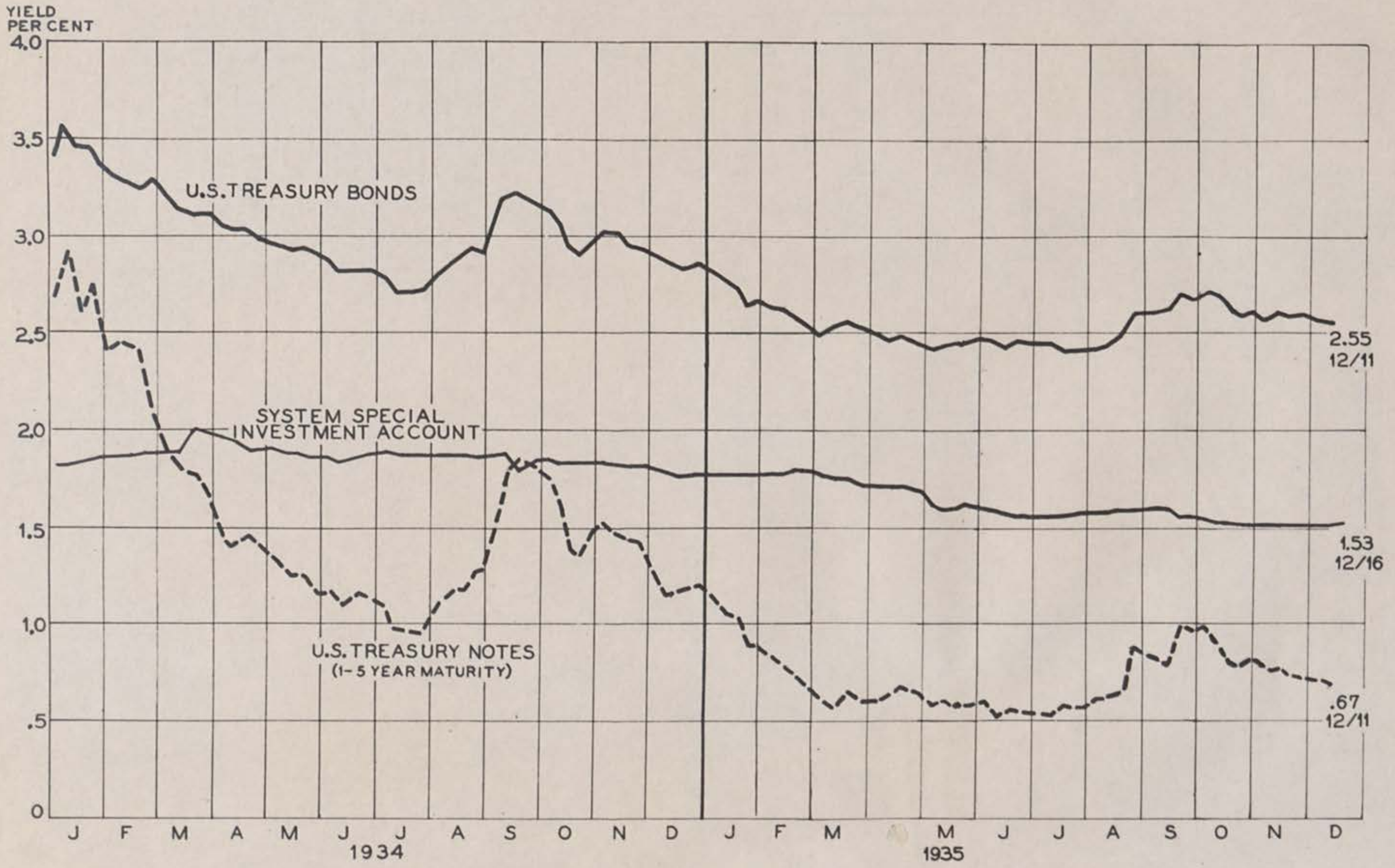
EXHIBIT "F"



Average Earning Rate on Holdings of U. S. Government Securities in System Special Investment Account and Average Yield on Outstanding U. S. Treasury Bonds and Treasury Notes

EXHIBIT "G"

TABLE I - MATURITY DISTRIBUTION OF GOVERNMENT SECURITY HOLDINGS DECEMBER 16, 1935
(In thousands of dollars)

	Within 6 months	6 months-1 year	1 - 2 years	2 - 5 years	Bonds	Total
System Account	$496,995	$419,188	$249,370	$863,147	$194,449	$2,223,149
N. Y. Inv. Acct.	39,831	27,325	14,902	38,239	-	120,297
*Chicago Inv. Acct.	33,549(A)	12,492	-	16,700	-	62,741
*Other	500	-	500	2,244	18,432	21,676
Total	$570,875	$459,005	$264,772	$920,330	$212,881	$2,427,863

(A) Includes $9,350,000 - 2 1/2% T/N due 12/15/35

TABLE II - PERCENTAGE DISTRIBUTION OF GOVERNMENT SECURITY HOLDINGS DECEMBER 16,1935

	Within 6 months	6 months-1 year	1 - 2 years	2 - 5 years	Bonds	Total
System Account	22	19	11	39	9	100
N. Y. Inv. Acct.	33	23	12	32	0	100
*Chicago Inv. Acct.	53	20	-	27	-	100
*Other	2	-	2	11	85	100
	23	19	11	38	9	100

TABLE III - BOND HOLDINGS DECEMBER 16, 1935
(In thousands of dollars)

Maturity	System Account	Other*	Total
1940-43	$ 2,400	$ 10	$ 2,410
1941	44,429	11	44,440
1941-43	4,500	2,467	6,967
1943-45	21,500	552	22,052
1943-47	3,000	710	3,710
1944-46	33,121	4	33,125
1944-54	-	4,168	4,168
1945-47	11,750	402	12,152
1946-47**	-	644	644
1946-48	40,700	0	40,700
1946-49	-	1,706	1,706
1946-56	-	5,205	5,205
1947-52	-	0	0
1949-52	2,015	795	2,810
1951-55	-	444	444
1955-60	31,034	1,314	32,348
Totals	$194,449	$18,432	$212,881

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* As of December 11
** 3% Conversions

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 20, 1935.

To Mr. Hamlin

Subject:

From Mr. Carpenter

CONFIDENTIAL

There is attached, for your information, a copy of a memorandum which has just been received from Dr. Burgess on the subject of excess reserves and Federal Reserve policy. The memorandum was considered by the Federal Open Market Committee at its recent meeting.

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CONFIDENTIAL

EXCESS RESERVES AND FEDERAL RESERVE POLICY

At its meeting on October 22 - 24 the Open Market Committee considered the problem of excess reserves, the possible methods of dealing with the problem, and the question of the timing of any action that might be taken. Since that time these questions have been discussed by the Board of Governors, and also by the Federal Advisory Council, which has presented to the Board a statement of its views with a request that the statement be transmitted to the Federal Open Market Committee. There has also been considerable public discussion of the problem.

In considering the questions involved, it is important to bear in mind that the growth of excess reserves has embraced two distinctly different phases. In 1932 - 33 the Reserve System was actively pursuing a policy, first of getting the member banks out of debt to the Reserve Banks, and then of creating excess reserves. By open market purchases of government securities it created excess reserves amounting by January, 1934, to $ 900,000,000. This great volume, until then unprecedented, was generally regarded as adequate to accomplish whatever desirable effects, toward stopping deflation and assisting recovery through credit expansion, might reasonably be expected from excess reserves, particularly as they were by that time well distributed throughout the country, and not, as in 1932, merely concentrated in the big city banks. The security purchases were therefore brought to an end in November, 1933, and since that time the Reserve Banks have simply maintained their security portfolio at about its current volume of $2,400,000,000.

In February, 1934, however, following the devaluation of the dollar, there began a wholly new phase of growth of excess reserves, which has continued to the present time and is still continuing. In this second phase the Reserve System

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has played no part. The spectacular increase of excess reserves from $900,000,000 in January, 1934, to $3,300,000,000 at the present time has been wholly due to gold inflow, which in the past two years has amounted to $2,900,000,000.

As we have observed this enormous increase in excess reserves, to a figure far beyond what the System had had in view, two questions have arisen in our minds. First, by what means could the Reserve System under these circumstances, entirely unprecedented in the history of central banking, exercise its responsibility for bank reserves and the control of credit, when the time for action came? Second, what, under conditions like the present, is the appropriate time for action?

The accepted method of affecting the reserve position, as the practice has been developed since the War, is by open market operations. But this method, by itself, would in the present circumstances be both inadequate and impracticable. Even though the Reserve Banks should dispose of their entire portfolio there would still be left a substantial margin of excess reserves, without taking into account the further increase in such reserves through continued inflow of gold. Incidentally, such an operation would entirely deprive the System of earnings, since it now has virtually no other earning assets. It has been computed that at the level of interest rates obtaining in 1925 and 1926 the Reserve Banks would need to retain about half of their present earning assets to cover their expenses.

Recognizing the inadequacy of open market operations, by themselves, for dealing with excess reserves of the present magnitude, the Banking Act of 1935 gave to the Board of Governors of the Federal Reserve System the power to increase the reserve requirements of member banks to not more than double the present requirements. The question which we now face is not whether the System should use one or the other of these powers, the open market operation or the increase of reserve requirements, since for a complete control it will probably be necessary to use both. The real questions are in what order they should be used and when.

The increase of reserve requirements ought logically to precede the open market operation. As has been pointed out in our previous discussions, and as is remarked by the Federal Advisory Council in its recent statement, these two methods of control are quite unlike in nature and in purpose. The open market operation is a highly flexible instrument, permitting of continuous adjustment to the conditions and needs of the banks and the general economic situation. The alteration of reserve requirements would represent, on the other hand, a fundamental readjustment, whose chief purpose would be to bring the reserve situation once again within a range where short-period changes could be effected by open-market operations, rather than by periodic changes in reserve requirements. To put the matter concretely, if we should begin with the open-market operation, we would then be forced to make the short-period adjustments by continuous alterations of reserve requirements. Considering the fundamental nature of reserve requirements, the difficulties of foreseeing their effects upon the position of individual banks or classes of banks, the very grave hazards to which banking would be subject if continually in fear of alterations of reserve requirements, it is surely to be hoped that this method will be resorted to only at rare intervals and only when, under conditions like the present, it is necessary to make a fundamental readjustment of the credit base.

There is, moreover, a further, and a decisive, reason under the present circumstances for dealing with the excess reserve problem in the first instance by raising the reserve requirements. Our present problem has its origin, as already stated, in gold imports. The gold imports of the past two years, though larger than in any equal previous period, represent a continuing phase of a movement which began with the World War. If we go back to 1917, when the present reserve requirements of the member banks were enacted, we find that the total gold stock of the country has grown from $2,800,000,000 to approximately $10,000,000,000 at the present time, and that the reserves of the Federal Reserve Banks have grown from $1,200,000,000 to $7,400,000,000. In the same period the reserves of the member banks have grown from about $1,500,000,000 in 1917 to $2,400,000,000 in 1929 and $6,000,000,000 at the present time, the last total including $2,700,000,000 of required reserves and $3,300,000,000 of excess reserves.

In other words, our gold stock in the past eighteen years has more than trebled; and it seems clear that even if we make a generous allowance for secular growth, our gold stock has at least doubled as compared with what in the earlier period was regarded as adequate for the support of our credit structure. It is, therefore, not surprising that member bank reserves have also, by reason of this large and persistent inflow of gold, developed a large excess of actual reserves over their legally required reserves. The only alternative, according to generally accepted theory, would be such an expansion of bank deposits as would use up the excess reserves, and such a rise of our price level accompanying that expansion as would halt the inflow of the gold itself. When we consider that the present excess reserves would support bank credit of from $30,000,000,000 to twice that amount, and that the resultant rise of prices would therefore assume the proportions of a major inflationary movement, such as has always proved uncontrollable, it becomes apparent that the only practicable and desirable solution is an alteration of reserve requirements. Must we not, in particular, recognize that the devaluation of the dollar carried with it, as one of the necessary conditions of its successful operation, the need for a fundamental readjustment of reserve requirements? Must there not, in other words, be an adaptation of reserve requirements to our new gold base?

There remains the question of the timing of the System's action. The purpose of the excess reserve policy has been to aid recovery, and it is of paramount importance that no action should be taken that would imperil or retard recovery. Up to the present the System's policy has encountered considerable success, as evidenced first by the cessation of contraction of bank assets, in which the rehabilitation of the capital structure of the banks also played an important part, and subsequently by the increase of bank holdings of government securities, the successful conversion of the government war debt, the large volume of refunding of private corporate issues during the past year, and the improvement of the mortgage market. But two of the most significant and reliable signs of a return to more normal credit conditions have not yet appeared, the flotation in substantial volume of new corporate issues and the expansion of business borrowing from banks, though these, under present conditions, might well be expected to appear only at a later stage of recovery.

In the general economic situation there has been a marked change for the better. There have been genuine indications this year that recovery is under way, and in recent months it has appeared to be proceeding at an accelerated pace. But here also some of the most reliable signs that might convey certainty as to the permanency of the present trend are lacking. Building construction, which has made rapid and substantial improvement in recent months, is still 60 per cent below normal. Recovery cannot be regarded as assured so long as production in the heavy industries, which have been the seat of the depression, still remains substantially below a normal volume. Moreover, unemployment is still very large and the Federal budget is still unbalanced, which means that national production and consumption are not yet on a normal self-sustaining basis.

These facts warrant the conclusion that there is no justification as yet for the System's changing its easy money policy. Nor would it be desirable to take any action respecting excess reserves which might have a harmful psychological effect, even though in intent and in fact the action would not reverse the present policy. From these points of view alone, the time for modification of our easy money policy would not arrive until production has returned to normal, or at least until the present trend toward a return to normal provides unmistakable evidence of continuing.

On the other hand, it may well be doubted whether reserves of such magnitude as we have had in the past year, during which excess reserves have increased $1,500,000,000, to almost double their size a year ago, have been in any way essential to recovery. It appears significant that much the greater part of the fall of interest rates to their present low levels occurred prior to this year, and that short-time money rates and highest grade bond yields, which should most clearly reflect monetary influences, have changed but little from a year ago. It seems very probable that with excess reserves of such extraordinary dimensions there comes a point where further increases have no further constructive effects.

At such a point excess reserves may contain possibilities of positive harm. There is the danger, for example, that excess reserves may give rise to disproportionate bank investment in government securities. There is the danger that banks may acquire government and other bonds at prices which later may not be sustained. There is the danger that with money so freely available, states, municipalities and the national government, and other borrowers as well, may be tempted to over-borrow. There is the general fear which many people entertain that excess reserves of the present magnitude must sooner or later set in motion inflationary forces which, if not dealt with before they get strongly under way, may prove impossible to control. There is the possibility also that the very fact of such inordinately large excess reserves may, by causing foreign expectation of favorable conditions for speculative investment, accentuate the gold inflow which is the real source of our problem.

From this point of view there is much to be said for an increase of reserve requirements sufficient to absorb some substantial amount of present excess reserves. Such a step would reduce the excess reserves to a point where they are more susceptible of being handled, once again, by the usual method of open market operations; it would put them back to the volume of a year ago. As the reserves are now widely distributed among the banks of the country, such an increase of requirements could now be carried through with virtually no disturbance to the banks and should not affect either interest rates or the ability or willingness of the banks to expand credit.

It must be borne in mind that the longer action is delayed the greater is the likelihood that some or many banks will have utilized their reserves, rendering the process of reserve adjustment, when it does come, as at some time it must, all the more painful and harmful both to them and to the country. This conclusion applies also against initiation of action through open market operations, whether now or at any future date. The more excess reserves are reduced by open market operations before reserve requirements are raised, the more will inequalities in the distribution of excess reserves among the banks of the country be accentuated and the more disturbing will be the eventual adjustment of reserve requirements.

Such an increase of reserve requirements as has been suggested would represent not an act of credit control, not in any sense a reversal of the present easy money policy, but an act of reassurance to the banks and the country that excess reserves, though still ample for credit expansion, had been brought within the range of control. It would be an act of technical readjustment of our reserve requirements to our new gold base.

There is one further important aspect of the problem of timing. Under conditions like the present, when the Federal budget is unbalanced and the government is still engaged upon a large emergency program of borrowing and spending, there is need for a close coordination of fiscal and credit policy. It would go far toward removing any possible misinterpretation and toward insuring that the corrective adjustment of reserves would have beneficial rather than disturbing effects if that action were accompanied or preceded by steps looking definitely toward the tapering off of budgetary deficits. One fear that has frequently been expressed is that the readjustment of reserves, unless properly timed and properly understood by the banks and by the country, might seriously disturb the government bond market, but that would almost certainly not be the case if there were some clear indication that the government's need of new borrowing would definitely diminish. Presumably, early in the new year there will be presented to the Congress a budgetary estimate for the fiscal year 1937. The readjustment of reserve requirements of the member banks would be rendered much more effective, and whatever psychological risk that might otherwise attend it would be avoided, if the forthcoming budgetary estimate should indicate the desirability and the feasibility of tapering off the budgetary deficits, and the purpose of the government now to move toward this objective.

12/13/35.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 21, 1935.

To Mr. Hamlin

Subject: The objective and modus operandi of the 100% plan.

From Lauchlin Currie
L.C.

16—852

The main objective of the various 100% plans is to divorce the creation of money (demand deposits) from the making of loans. As long as these are linked as at present the monetary authority is going to experience difficulty in bringing about an expansion of deposits when people do not want to borrow (or banks to lend), and a contraction of deposits when people want to borrow. If demand deposits were backed by a 100% reserve there could be no <u>multiple</u> expansion and contraction of deposits on the basis of a given increment or decrement of reserves. If the plan were in operation at the present time, for example, the excess reserves could create only an equal amount of deposits, not some $30 billion as now.

The modus operandi differs with the different 100% plans. The following plan is selected for discussion, as it involves the least disturbance to the existing system:

1. All banks shall borrow the difference between their existing reserve requirements and their total demand deposits from the reserve banks on a non-interest bearing note. In this way banks can secure 100% reserve against demand deposits without disposing of any of their earning assets.

2. New demand deposits would arise only from an inflow of cash or gold and open market purchases by the reserve banks.

3. New demand deposits would put banks to additional expense and yet would give rise to no additional income. In order to compensate banks and avoid high service charges it is proposed that the reserve banks pay the member banks an amount equal to the current yield on government bonds on 85% of the <u>increase</u> in deposits. This is equitable since the reserve banks when they buy securities increase their earnings without increasing their expenses proportionately.

4. In case the payments to be made to the banks, plus the expenses of the reserve banks, exceed the reserve banks' income, the difference shall be made up by the government.

5. If a member bank's demand deposits decrease below the level prevailing at the inauguration of the plan it shall make a payment to the reserve banks equal to the amount which would have been earned if 85% of the decrease had been invested in government bonds. This is equitable since the bank's expenses declined with a decline in deposits and yet it does not have to dispose of any of its earning assets, as it would at present.

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6. Member banks will have available for loans their existing earning assets plus the growth of time deposits, plus the increase in capital funds. They might also be permitted to utilize their present excess reserves.

7. There would be no reserve requirements against time deposits.

8. There would be no future loans by the reserve banks to member banks.

A series of arithmetical examples is appended to illustrate how the scheme would work from the point of view of the banks.

=ILLUSTRATIONS OF THE MODUS OPERANDI OF A 100 PERCENT RESERVE PLAN=

A. A simplified statement of a bank's condition immediately prior to the adoption of the plan.

100 deposits	15 legal reserve and vault cash
	5 excess reserve
	80 loans and investments

B. The 100% reserve requirement plan then goes into effect and the bank borrows 85 reserve from the reserve banks.

100 deposits	100 legal reserve
85 due to reserve banks	5 excess reserve
	80 loans and investments

C. The bank then invests its excess reserve.

100 deposits	100 reserves
85 due to reserve banks	85 loans and investments

D. The bank then gains an average of 10 new deposits over a 6 months' period.

110 deposits	110 reserves
85 due to reserve banks	85 loans and investments

The reserve banks then pay the member banks, say, 3%, the current yield on Government bonds, of 85% of 110 - 100=.255

E. The bank then loses deposits so that over the next 6 months' period its deposits are 10 less than when the plan takes effect.

90 deposits	90 reserves
85 due to reserve banks	85 loans and investments

The bank then pays the reserve banks, say, 3% of 85% of 100-90 =.255

F. The bank deposits remain as in E and in addition it reduces its borrowings from the reserve bank by 10.

90 deposits	90 reserves
75 due to reserve banks	75 loans and investments

As before, the bank pays the reserve banks .255 every 6 months and the reserve banks pay the bank, say, 3% of 10, the amount by which the bank reduced its indebtedness, which equals .3

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GOVERNORS' CONFERENCE

Washington, D. C.

December 17, 1935.

The conference was called to order at 5 o'clock P. M.

PRESENT: Governor Calkins, Chairman, and Governors Young, Harrison, Norris, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, and McKinney. Also Deputy Governor Burgess.

Mr. Strater, Secretary.

TOPIC - BOARD OF GOVERNORS BUILDING ACCOUNT RECONSIDERATION OF ACTION TAKEN AT GOVERNORS CONFERENCE ON OCTOBER 23, 1935.

The Conference of Governors on October 23 voted that amounts levied by the Board of Governors of the Federal Reserve System to purchase a site and erect a building to house the Board, be charged to Profits and Loss.

It was the opinion of some of the Governors that it would be desirable to carry the assessments paid to the Board of Governors for this purpose as an asset account until the Board's building was completed and at that time to give consideration to a program of depreciation or of charge offs. After discussion it was

VOTED to rescind the action taken at the Governors' Conference of October 23, 1935, and that the matter be left in abeyance.

Governors Schaller and Seay voted in the negative and Governor Norris is recorded as not voting.

TOPIC - REPORT OF THE RETIREMENT COMMITTEE OF THE FEDERAL RESERVE BANKS, DATED DECEMBER 13, 1935.

The Governors' Conference of May 27 and 28, 1935, requested the Retirement Committee of the Retirement System to consider the development of a plan which would make possible the retirement of bank guards at the age of 50 years. The committee's report outlined several methods which would accomplish this purpose and the cost thereof.

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As the Governors desired to have an opportunity to study the report carefully it was

VOTED to postpone action on the report until a later meeting.

TOPIC - SHOULD BASIS OF DEPRECIATION RESERVES ON BANK BUILDINGS BE CHANGED SO AS TO WRITE OFF BOOK VALUE IN 40 YEARS INSTEAD OF 50 AS AT PRESENT. IF SO SHOULD 2% ANNUAL DEPRECIATION CHARGE BE CHANGED OR SHOULD A LUMP SUM BE ADDED TO PRESENT RESERVE.

After discussion it was

VOTED that the present practice of writing off bank buildings at 2% per annum be continued, with the understanding that individual Federal Reserve Banks may make special adjustments upon the approval of the Board of Governors of the Federal Reserve System.

TOPIC - SHOULD STEPS BE TAKEN TO CHARGE OFF IMMEDIATELY OR OVER A FIVE YEAR PERIOD, PRIOR LIABILITY UNDER RETIREMENT SYSTEM, AND IF SO, SHOULD AMOUNT OF PRIOR LIABILITY TO BE CHARGED OFF BE ON BASIS OF PRESENT VALUE OR MATURITY VALUE DISCOUNTED AT A GIVEN PER CENT. IF AT A GIVEN PER CENT WHAT SHOULD THAT PER CENT BE.

It was understood by the Governors that rates of contribution by members of the Retirement and by the employing banks as well as the amount of benefits to be paid were determined actuarily upon the basis of 4% interest on the unpaid portion of liability for prior service due from the employing banks over a period of 20 years from the establishment of the Retirement System, therefore the employing banks could not extinguish their liability for prior service by discounting at present value without seriously affecting the solvency of the Retirement System.

It was also understood that a study of the possibility of discounting the maturity value of prior service liability made by the Retirement System indicated that this could be safely done at 2%. After discussion it was

VOTED to recommend that the several Reserve Banks and the Board of Governors of the Federal Reserve System discharge their liability for prior service to the Retirement System over a period of five years at maturity value discounted at 2%.

Governors McKinney and Young are recorded as not voting.

TOPIC - REPORT OF COMMITTEE ON REIMBURSABLE EXPENSES.

Governor Fleming, Chairman of the Committee, submitted an informal report on the progress made by the committee since the last Governors' Conference.

Adjourned at 6:20 p. m.

The Conference reconvened at 12:30 p.m., on December 18, 1935, with the same attendance as on the previous day, for the purpose of considering the following letter from the Hon. M. S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, and copy of a letter from the Secretary of the Treasury:

Mr. J. U. Calkins,
Chairman of the Governors' Conference.

Dear Governor Calkins:

You will recall that at the last Governors' Conference held in Washington on October 24, 1935, the Conference, during its joint meeting with the Board of Governors, discussed in considerable detail the suggestion of the Secretary of the Treasury that the Federal Reserve banks discontinue paying out new Federal Reserve notes of the 1928 series which bear on their face the words "Redeemable in gold" when notes of the 1934 series without that clause are available.

The Board is now in receipt of a letter from the Secretary of the Treasury, copy of which is attached, outlining the procedure which the Secretary proposes to follow in connection with the discontinuance of the paying out of notes of the 1928 series and with respect to the procuring of an appropriation from Congress to defray the cost of replacing the stock of new notes of the 1928 series. There is also attached a draft of a proposed reply to the Secretary of the Treasury. It will be appreciated if the Conference will consider this draft and advise the Board whether the procedure set forth therein meets with its approval. If the Conference is of the opinion that a different procedure should be followed, it will be appreciated if you will advise the Board in detail with respect to the kind of reply the Conference recommends that the Board make to the Secretary of the Treasury.

Very truly yours,

M. S. Eccles, Chairman.

ENCLOSURE

The Secretary of the Treasury
Washington

Dear Sirs:

It is the view of the Treasury that the issuance of new Federal Reserve notes of the 1928 series, which bear on their face the words "redeemable in gold" should be discontinued by the Federal Reserve banks as soon as a sufficient stock of Federal Reserve notes of the 1934 series is available to meet current requirements of the respective banks. Accordingly, I propose to instruct the Director of the Bureau of Engraving and Printing to cease the delivery of Federal Reserve notes of the 1928 series and to cease working on any of such notes that are now in the process of completion.

These instructions would be issued to the Director of the Bureau of Engraving and Printing on the assumption that for the present

(a) Federal Reserve agents will not issue Federal Reserve notes of the 1928 series to the Federal Reserve banks when notes of the 1934 series are or can be made available for such banks;

(b) The Board of Governors of the Federal Reserve System will not ask for the shipment of Federal Reserve notes of the 1928 series from the Bureau of Engraving and Printing when notes of the 1934 series are available or can be made available to meet current requirements, and would instruct the Federal Reserve agents not to issue any Federal Reserve notes of the 1928 series to the Federal Reserve banks when notes of the 1934 series are available.

In view of the foregoing assumptions, involving action on behalf of the Federal Reserve banks, and of the fact that it is the banks who are liable for the cost of printing and shipping Federal Reserve notes, I feel that, prior to taking the contemplated action as above described, I should first receive the approval of the Federal Reserve banks. I shall therefore very much appreciate it if you will communicate with the several banks and advise me whether it will be satisfactory for me to instruct the Director of the Bureau of Engraving and Printing as proposed.

If the procedure herein contemplated is followed, I will submit to members of the appropriate committees of Congress the question of making, at its next session, an appropriation with which to defray

(a) the cost of printing a stock of Federal Reserve notes of the 1934 series to replace those of the 1928 series held by or for the account of the Federal Reserve agents and by the Bureau of Engraving and Printing;

(b) the cost of shipping Federal Reserve notes of the 1934 series to the Federal Reserve agents to replace new Federal Reserve notes of the 1928 series held by them;

(c) the cost of returning to Washington new Federal Reserve notes of the 1928 series held by the Federal Reserve agents; and

(d) the cost of destroying notes of the 1928 series replaced by notes of the 1934 series, if and when such notes are destroyed.

Very truly yours,

H. Morgenthau, Jr.
Secretary of the Treasury.

Board of Governors of the Federal Reserve System, Washington, D.C.

PROPOSED REPLY.

Honorable H. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Morgenthau:

In compliance with the suggestion contained in your letter of December 13 with respect to the discontinuance of the issuance by the Federal Reserve banks of Federal Reserve notes of the 1928 series which bear on their face the words "Redeemable in gold", as soon as a sufficient stock of Federal Reserve notes of the 1934 series is available to meet current requirements of the respective banks, your letter was referred to the Governors at their conference in Washington on Wednesday of this week. After discussing this matter the Governors advised the Board that they are in accord with the procedure set forth in your letter, with the understanding that, if Congress does not at the forthcoming session authorize the Treasury to replace the stock of new Federal Reserve notes of the 1928 series with notes of the 1934 series, the question as to whether the Federal Reserve banks should resume paying out notes of the 1928 series will be given consideration promptly after the adjournment of Congress.

It is understood, of course, the acquiescence of the Board and the Federal Reserve banks at this time in the program outlined in your letter will not in any way prejudice the right of the Federal Reserve banks to resume the paying out of the existing stock of notes of the 1928 series in case the Treasury Department is not authorized to replace this stock with notes of the 1934 series.

Very truly yours,
M. S. Eccles, Chairman.

After discussion it was voted that Governor Eccles' proposed reply be approved.

Adjourned at 12:50 o'clock p.m.

H. F. Strater,
Secretary.

December 13, 1935.

REPORT OF THE RETIREMENT COMMITTEE OF THE RETIREMENT SYSTEM OF THE FEDERAL RESERVE BANKS TO THE GOVERNORS CONFERENCE, DECEMBER 17, 1935.

At the Governors Conference held on May 27-28, 1935, the Retirement Committee of the Retirement System was requested to consider the development of a plan which would make possible the retirement of bank guards at the age of fifty.

The Retirement Committee has explored this subject and submits the following report:

If the reserve banks were to adopt a policy of retiring guards at the age of fifty, the Rules and Regulations of the Retirement System would need to be amended since at the present time they do not make possible retirements through the Retirement System at an age earlier than fifty-five. If the banks feel it is desirable to retire any given class of employees at an earlier age than fifty-five there appears to be no reason why the Rules might not be amended to make such action possible. It would, however, be necessary substantially to augment the contributions to the Retirement System in behalf of such employees to enable the Retirement System to pay retirement allowances adequate for the retirement of such a group. This could be done in either of two ways,

(1) the contributions of both the employee and of the employing bank could be increased to cover the added cost of this earlier retirement and at the same time to preserve the approximately 50-50 division between the employee and the bank of the cost of the plan;

(2) the retirement allowances payable could be supplemented at the time of retirement by a special contribution to the Retirement System by the employing bank in such an amount as was necessary to buy the increased retirement allowance over and above that which would be regularly available to such a member under the Rules and Regulations (as amended).

Under the second method the entire increased cost imposed by this earlier retirement would be borne by the bank whereas under the first suggestion it would be borne equally by the bank and by the employee.

Tables 1 and 1A

The following tables indicate the rates which would be payable by the member and by the bank to provide retirement at age fifty and also age fifty-five with a retirement allowance of 1 1/2% of average salary multiplied by years of service. These rates are for a new entrant without prior service:

Table 1
Retirement at age 50

AGE AT ENTRANCE	MEMBER'S RATE		BANK'S NORMAL RATE	
	Proposed	Present	Proposed	Present
25	7.71%	4.22%	6.73%	3.84%
30	8.42	4.61	7.82	4.40
35	9.25	5.08	9.09	5.13

Table 1A
Retirement at age 55

AGE AT ENTRANCE	MEMBER'S RATE		BANK'S NORMAL RATE	
	Proposed	Present	Proposed	Present
25	6.40%	4.22%	5.59%	3.84%
30	6.99	4.61	6.45	4.40
35	7.68	5.08	7.57	5.13

Table 2

The following indicates the retirement allowances which would be payable if contributions were made on the basis of the preceding tables and for comparison there is also shown the normal retirement allowance payable at age sixty-five: (for convenience a flat salary of $1,500 throughout service is assumed in all of the following tables).

Table 2

AGE AT ENTRANCE	TOTAL RETIREMENT ALLOWANCE (1 1/2% of aver.ann.salary x yrs.of service)		
	AT AGE 50	AT AGE 55	AT AGE 65
25	$562	$676	$900
30	450	562	788
35	338	450	676

Tables 3 and 3A

If the banks were to adopt the second method, that is, were to supplement the allowances by a special payment at the date of retirement, the following table, Table 3, indicates in Column A the benefit which would be payable by the Retirement System for "special service retirement" (assuming the Rules were amended to provide for such benefit at age fifty); in Column B the amount of supplemental allowance which would be required to bring the retirement allowance up to 1 1/2% of average salary multiplied by years of service; in Column C the total annual retirement allowance payable, i. e., the sum of Columns A and B, and in Column D, the lump sum payment which it would be necessary to make to provide the additional supplemental payment as indicated in Column B. Table 3A states the figures in the same way for retirement at age fifty-five.

Table 3
Retirement at age 50

AGE AT ENTRANCE	A. SPECIAL RETIREMENT ALLOWANCE	B. AMT. REQUIRED TO BRING ALLOWANCE TO 1 1/2% SALARY X YEARS	C. TOTAL RETIREMENT ALLOWANCE	D. LUMP SUM PAYMENT TO PROVIDE SUPPLEMENTARY ALLOWANCE
25	$211	$351	$562	$5,530
30	166	284	450	4,474
35	124	204	328	3,372

Table 3A
Retirement at age 55

AGE AT ENTRANCE	A. SPECIAL RETIREMENT ALLOWANCE	B. AMT. REQUIRED TO BRING ALLOWANCE TO 1 1/2% SALARY X YEARS	C. TOTAL RETIREMENT ALLOWANCE	D. LUMP SUM PAYMENT TO PROVIDE SUPPLEMENTARY ALLOWANCE
25	$357	$319	$676	$4,618
30	292	270	562	3,909
35	232	218	450	3,156

As will be noted from the above tables the cost of early retirement increases rapidly with the reduction in the retirement age. It may be questioned whether the employees could be expected to contribute as large a proportion of their salary as would be necessary if the employee were to provide approximately half the cost of his retirement. It will be noted that the contribution rates necessary to provide retirement at age fifty are approximately 80% higher than for retirement at age sixty-five and that they are approximately 50% higher for retirement at age fifty-five. As a practical matter it would probably not be possible to assess these rates without some adjustment of salary which would have the net effect of transferring the greater part of the cost to the bank.

It will also be observed in connection with the figures shown in Tables 3 and 3A that the provision of supplemental allowances at the early ages of fifty and fifty-five is also quite expensive.

The Retirement Committee suggests that, if as a matter of policy it appears desirable to provide retirement allowances for guards at these early ages through an adjustment of the rates of contribution, it would be very desirable to have a uniform policy throughout the System.

While the question of the age at which guards should be retired is clearly a matter of administration, the Retirement Committee suggests the possibility of handling the matter more conservatively by dealing with cases as they may arise and providing supplementary retirement allowances at the time of retirement in those cases where such a course appeared to be either desirable or necessary. If this policy were to be followed individually by the banks there would be no occasion for a System policy in the matter since those banks which might have relatively few men of the older ages upon their guard force might find it possible to assign duties which would enable them properly to utilize the services of such men for a longer period while other banks which might have a larger proportion of older men and therefore feel under greater necessity for retirement could provide for such retirements through supplementary payments.

In this connection attention is called to the fact that Section 9 of the Rules and Regulations provides for the granting of additional special benefits upon payment therefor by the employing bank. The Board of Governors of the Federal Reserve System has already authorized the banks to make lump sum payments to provide special benefits in certain circumstances and it is understood that the Board is now considering a revision of its authorization in this respect. The Committee therefore suggests that if any action appears desirable in connection with this matter it would seem best that it be taken through the medium of lump sum payments as this would provide a greater degree of flexibility and would, subject to the approval of the Board of Governors, make it possible for each bank to deal with the matter in such manner as seemed to it most desirable.

Respectfully submitted,

RETIREMENT COMMITTEE,
Harry F. Conniff,
Herman F. Strater,
John R. Van Fossen,
John S. Walden, jr.,
Leslie R. Rounds, Chairman.

P55

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 21, 1936.

To Mr. Hamlin

Subject:

From Mr. Carpenter

gro 16—852

CONFIDENTIAL

There are attached, for your information, confidential copies of the report of open market operations to the meeting of the Federal Open Market Committee held in Washington today, and the preliminary memorandum considered by the Committee at its meeting.

There is also attached a copy, marked "Very Confidential", of a resolution which was adopted by the Committee at its meeting today and which was handed to Mr. Morrill by the Secretary of the Federal Open Market Committee following the adjournment of the Committee meeting.

VERY CONFIDENTIAL

The Committee has considered the preliminary memorandum and has reviewed the credit situation. It is the sense of the Committee that, so far as business, credit, and banking conditions are concerned, there is nothing in the present situation to prompt the Committee to change its views as expressed in its resolution adopted on December 18th, which the Committee respectfully renews.

The Committee recognizes that the risks of action are somewhat increased by the present budgetary situation, but it recognizes also that the longer action is delayed, the greater are the dangers resulting from the combination of inordinately large excess reserves and an unbalanced budgetary position, and the greater will be the difficulty of taking remedial action.

Viewing the situation as a whole, the Committee strongly believes that action looking toward a substantial reduction in excess reserves should be taken as soon as this may be feasible, in the judgment of the Board of Governors of the Federal Reserve System, having in mind the advantages of a coordinated program of recovery.

January 21, 1936.