The Papers of Eugene Meyer (mss52019)

117_05_001-	Subject File, Federal Reserve Board, General Correspondence, 1931

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
GENERAL CORRESPONDENCE
1931

Coffin, Howard E.
Glass, Carter

January 14, 1931.

Honorable Carter Glass,

United States Senate.

My dear Senator Glass:

I have your letter of January 13 and will be pleased to appear at 10:30 Monday morning, January 19, before the Subcommittee of the Senate Committee on Banking and Currency for a hearing on the banking situation.

With kind regards, I am

Sincerely yours,

(Signed) Eugene Meyer

Governor.

United States Senate

COMMITTEE ON APPROPRIATIONS

January 13, 1931.

My dear Mr. Meyer:

This is to confirm the invitation today extended to you over the 'phone to appear at 10:30 o'clock on Monday, January 19th, before the subcommittee of the Senate Committee on Banking and Currency for a hearing on the banking situation in the country.

At this meeting the inquiry ordered by the Senate will be initiated by hearing first the Governor of the Federal Reserve Board, to be followed by the Comptroller of the Currency. I cannot at this time indicate the line of questioning to be pursued beyond the general statement that the committee will be glad to have from you any suggestion that you may care to make concerning necessary or desirable modifications of existing laws or practices, either or both.

Very truly yours,

Carter Glass.

Chairman.

Eugene Meyer, Esq.,
Governor, Federal Reserve Board,
Washington, D. C.

January 15, 1931.

Mr. J. W. Rixey Smith,
Secretary to Senator Glass,
United States Senate,
Washington, D. C.

Dear Mr. Smith:

Governor Meyer directs me to acknowledge the receipt of the copy of Senate Bill 4723 and to say that he will be pleased to examine the provisions of the bill in connection with the Committee's inquiry.

Very truly yours,

(Signed) F. L. Fahy

Secretary to the Governor.

United States Senate

COMMITTEE ON APPROPRIATIONS

January 14, 1931.

My dear Governor Meyer:

Senator Glass directs me to forward you the enclosed bill, which he hopes to make a partial basis for the bank inquiry.

Sincerely yours,

J. W. Rixey Smith
Secretary to Senator Glass.

Hon. Eugene Meyer,
Governor Federal Reserve Board,
Washington, D. C.

71st CONGRESS
2d Session

S. RES. 71

IN THE SENATE OF THE UNITED STATES

May 16 (calendar day, May 24), 1929

Mr. King submitted the following resolution; which was referred to the Committee on Banking and Currency

April 21, 1930

Reported by Mr. Glass, with an amendment; referred to the Committee to Audit and Control the Contingent Expenses of the Senate

[Strike out all after the resolving clause and insert the part printed in italic]

April 30 (calendar day, May 5), 1930

Reported by Mr. Deneen, without further amendment; considered and agreed to

RESOLUTION

Resolved, That in order to provide for a more effective operation of the national and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be, and is hereby, empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities;

the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking; the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding Congresses until the final report is submitted, to employ such clerical and other assistants, to require by subpœna or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony, and make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed $15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

71st CONGRESS 2d Session } S. RES. 71

RESOLUTION

To make a complete survey of the national and Federal reserve banking systems.

By Mr. King

May 16 (calendar day, May 24), 1929

Referred to the Committee on Banking and Currency

April 21, 1930

Reported with an amendment and referred to the Committee to Audit and Control the Contingent Expenses of the Senate

April 30 (calendar day, May 5), 1930

Reported without further amendment; considered and agreed to

71st Congress 2d Session } SENATE { Report No. 493

SURVEY OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

April 21, 1930.—Ordered to be printed

Mr. Glass, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. Res. 71]

The Committee on Banking and Currency, to which was referred the Senate resolution (S. Res. 71) to investigate certain operations of the Federal reserve system and matters relating thereto, having considered the same, reports that said resolution be amended by striking out all of the matter contained therein, beginning with line 1, page 1, down to and including the period in line 10, page 5, and substituting therefor the following:

Resolved, That in order to provide for a more effective operation of the national and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be and is hereby empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities; the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking; the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding Congresses until the final report is submitted, to employ such clerical and other assistants, to require by subpœna or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony and make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed $15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

And that as so amended the resolution do pass.

The committee is of the opinion that a comprehensive study and survey for a more effective operation of the national and Federal reserve banking systems of the country should be made preliminary to essential legislation.

O

71st CONGRESS
2d Session

S. RES. 71

[Report No. 493]

IN THE SENATE OF THE UNITED STATES

May 16 (calendar day, May 24), 1929

Mr. King submitted the following resolution; which was referred to the Committee on Banking and Currency

April 21, 1930

Reported by Mr. Glass, with an amendment; referred to the Committee to Audit and Control the Contingent Expenses of the Senate

[Strike out all after the resolving clause and insert the part printed in italic]

RESOLUTION

~~*Resolved,* That in order to provide for the most effective operation of the Federal reserve system, to inform the Senate of the facts in connection with the use of the reserve funds of banks, in carrying or trading in securities, contrary to existing law, and to furnish a basis for constructive legislation to remedy such defects in our banking system as may be found to exist, the Committee on Banking and Currency, or a duly authorized subcommittee thereof, is hereby authorized and directed to make a full and complete investigation and to report thereon to the Senate as soon as practicable, with such recommendations for necessary legislation as it deems advisable;~~

~~1. What defects, if any, have been found to exist in the operation of the Federal reserve system, and what legislation is necessary to correct such defects;~~

~~2. Whether the facilities of the Federal reserve banks have been utilized in loans for trading in and carrying securities;~~

~~3. Whether member banks have afforded unduly large accommodation to brokers;~~

~~4. Whether the banking laws of the United States should be amended so as to restrict the use of general bank credits for speculative purposes or to limit the volume of loans made for the purpose of carrying on marginal transactions in stocks and other transactions of a speculative character, either through the introduction of term settlements or otherwise;~~

~~5. The classification of loans to brokers by members of the Federal reserve system and the purposes for which such loans are used, particularly in connection with new issues;~~

~~6. The different types of trading on the stock exchanges and the scope of each, as well as the extent of so-called "short sales" and the relative degree of concentration in "pool" stocks;~~

~~7. The effect of the operations of the Federal reserve system in contributing to the high rate of interest on call~~

~~money and to the drawing of money from rural districts to financial centers for speculative purposes;~~

~~8. The basis for the acceptance policies of the Federal reserve system and the extent to which mergers are taking place between member banks in the Federal reserve system;~~

~~9. Whether or not chain banking and branch banking are being developed and the effect and qualities of these types of banking;~~

~~10. The extent to which investment or security trusts are being formed by or in connection with member banks of the Federal reserve system, and the extent, character, and effect of their operations;~~

~~11. The extent of the loans to such trusts by the member banks and the loans made by them at call and otherwise, the dividends paid by such trusts, and the effect of such trusts upon fluctuations in the market value of stocks;~~

~~12. Whether or not the usury laws are evaded by such investment or security trusts;~~

~~13. Whether the member banks of the Federal reserve system should be prohibited from forming or being concerned with investment or security trusts;~~

~~14. The extent of the power of Congress to regulate the business of stockholders and others engaged in issuing, negotiating, or trading in securities;~~

~~15. Whether the effect of the direct discounting of member-bank notes by reserve banks has proven harmful;~~

~~16. Whether the so-called "war amendments" to the Federal Reserve Act have not outlived their object;~~

~~17. The number of bank failures within the period of ten years prior to the passage of this resolution and the causes of such failures;~~

~~18. Whether the national banking laws should be amended so as to prevent Federal charters being granted to associations having less than $100,000 capital;~~

~~19. Whether the merger or consolidation of large financial institutions is beneficial or whether such mergers or consolidations should be restricted;~~

~~20. The extent of the powers of Congress to legislate with respect to mergers and consolidations of financial institutions brought about under State law with which the members of the Federal reserve system are not concerned; and~~

~~21. Whether there is any evidence of concerted action on the part of member banks of the Federal reserve system to discriminate between competing business concerns in the extension of credits and the making of loans.~~

~~For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding~~

~~Congresses until the final report is submitted, to employ such clerical and other assistants, to require by subpœna or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony and make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed $25,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.~~

Resolved, That in order to provide for a more effective operation of the national and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be, and is hereby, empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities; the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking;

the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

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71st CONGRESS 2d Session } S. RES. 71

[Report No. 493]

RESOLUTION

To make a complete survey of the national and Federal reserve banking systems.

By Mr. King

May 16 (calendar day, May 24), 1929

Referred to the Committee on Banking and Currency

April 21, 1930

Reported with an amendment and referred to the Committee to Audit and Control the Contingent Expenses of the Senate

January 23, 1931.

F. Abbot Goodhue, Esq.,
President, International
Acceptance Bank, Inc.,
31 Pine Street,
New York, N. Y.

Dear Sir:

I beg to acknowledge the receipt of your letter of January 20 with enclosed resume of the activities of the International Acceptance Bank, Inc. for the year 1930, which I shall read with interest.

With kind regards, I remain

Very truly yours,

Governor.

8

For CIRCULATION.
Mr. Hamlin ✓
Mr. James ✓
Mr.
Mr. Miller
Mr. Pole
Mr.
Mr.
Mr.
Please note and return to GOVERNOR.

INTERNATIONAL ACCEPTANCE BANK, INC.
31 PINE STREET
NEW YORK

F. ABBOT GOODHUE
PRESIDENT

CABLE ADDRESS
ACCEPTBANK

January 20, 1931

Circulate
7

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

We have appreciated the friendly relations which have been maintained between us in the past, and, thinking that you might be interested in our activities during the year just closed, I am enclosing a short informal resume of what the International Acceptance Bank, Inc. has done during 1930.

This brief report I am sending to a very few of our former stockholders and intimate friends, and I would greatly appreciate it if you would treat the information contained therein as confidential.

I trust that the pleasant relations which have existed between us in the past may continue during 1931 and the years to come.

With kind regards, I am

Very sincerely,

F. Abbot Goodhue
President

RECEIVED
JAN 22 1931
OFFICE OF
THE GOVERNOR

INTERNATIONAL ACCEPTANCE BANK, INC.
New York
Year of 1930

As all the shares of the International Acceptance Bank, Inc., except for the directors' qualifying shares, are held by The Manhattan Company, the formal report previously made to the stockholders was discontinued last year, but a report of our activities of particular importance during the year was presented, and it has seemed advisable to follow the same procedure this year.

Our capital is	$6,250,000 paid in
Our surplus is of which $6,250,000 was originally fully paid in, the balance of $1,250,000 having been transferred from Undivided Profits in 1929	7,500,000
Undivided Profits are	5,028,000

In addition to the above there are very substantial hidden free cash reserves which do not appear in our statement, representing cash actually set aside on our books, against which we have no commitments after providing for all known losses and after taking all our securities at market.

The balance sheet of the International Acceptance Bank, Inc. (in comparative form on the following page), as of December 31, 1930 shows that the year was one of satisfactory development and that the profits were unusually gratifying in view of the low interest rates which prevailed during the greater part of the year, and the curtailment of general business activity due to the worldwide depression and the depreciation in commodity prices.

INTERNATIONAL ACCEPTANCE BANK, Inc.

COMPARATIVE BALANCE SHEET AS OF DECEMBER 31st

RESOURCES

	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Stockholders' Liability for Uncalled Subscriptions...	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,625,000	$ 6,250,000	$ 6,250,000
Cash on Hand and Due from Banks..............	$ 3,501,569	$ 7,154,615	$ 6,253,734	$ 7,582,067	$ 10,369,631	$ 11,076,477	$ 11,187,745	$ 8,098,397	$ 7,342,506	$ 13,283,029
Acceptances of Other Banks	1,862,869	2,115,255	3,623,226	5,092,527	4,220,568	5,751,414	5,208,068	6,108,214	6,445,731	6,305,885
Call Loans Secured by Acceptances....................................				4,810,000	4,600,000	5,214,046	5,399,000	5,175,000	6,000,000	4,000,000
U. S. Government, State and Municipal Bonds.....	8,531,170	10,885,686	12,456,643	15,132,074	11,678,309	11,495,726	15,406,228	12,076,382	16,295,132	12,180,737
Collateral Loans...........................			5,359,234	5,991,502	4,517,320	5,798,549	3,203,022	8,683,516	9,132,203	6,094,429
Other Loans & Advances....	2,042,464	2,699,975	8,097,547	13,866,582	6,374,851	5,946,461	7,540,098	10,232,217	14,511,101	19,817,978
Other Bonds & Securities..	2,119,079	3,229,429	5,475,717	6,100,456	5,580,205	7,798,650	8,585,414	6,964,483	5,930,197	4,479,644
Customers' Liability for Acceptances (less anticipations)...........	9,977,936	27,045,622	31,223,649	37,244,854	43,711,948	44,224,162	62,663,771	65,218,655	95,334,462	89,718,337
Customers' Liability under Letters of Credit.......	3,412,679	5,611,384	6,775,729	8,146,520	9,082,844	8,082,469	11,144,264	9,900,268	9,053,817	5,832,582.
Other Assets..............	125,016	199,124	268,855	260,516	211,119	234,126	254,361	308,762	324,111	322,995.
	$ 31,572,782	$58,941,090	$79,534,334	$104,227,098	$100,346,795	$105,622,080	$130,591,971	$132,765,894	$170,369,260	$162,035,619

LIABILITIES

	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Capital and Surplus Fully Subscribed..............	$ 15,250,000	$15,250,000	$15,250,000	$ 15,250,000	$ 15,250,000	$ 15,250,000	$ 15,250,000	$ 17,000,000	$ 18,750,000	$ 18,750,000.
Capital Paid In...........	$ 10,250,000	$10,250,000	$10,250,000	$ 5,250,000	$ 5,250,000	$ 5,250,000	$ 5,250,000	$ 5,750,000	$ 6,250,000	$ 6,250,000.
Surplus Paid In..				5,000,000	5,000,000	5,000,000	5,000,000	5,625,000	7,500,000	7,500,000
Undivided Profits.........	82,000	969,520	1,632,656	2,575,279	3,325,136	3,902,703	4,502,968	5,177,005	4,600,560*	5,028,000.
Due to Banks & Customers..	6,704,956	13,074,143	28,186,825	44,460,169	30,896,606	35,876,466	38,457,986	37,694,549	44,371,087	44,540,004
Acceptances Outstanding...	11,089,292	28,833,976	32,590,356	38,650,169	46,527,795	47,117,539	65,785,598	68,167,359	98,243,982	92,694,883
Letters of Credit.........	3,412,678	5,611,384	6,775,729	8,146,519	9,082,844	8,082,469	11,144,263	9,900,268	9,053,817	5,832,582
Reserves for Taxes, Unearned Discount, etc....	33,856	202,067	98,768	144,962	264,414	290,403	297,406	281,088	349,814	190,148
Reserve for Dividend payable...						102,500	153,750	170,625	-------	....
	$ 31,572,782	$58,941,090	$79,534,334	$104,227,098	$100,346,795	$105,622,080	$130,591,971	$132,765,894	$170,369,260	$162,035,619

*$1,250,000. - transferred to Surplus April 5, 1929.

Our earnings for the year amounted to - $1,886,986.83 and were distributed as follows:

Reserve for Taxes, Tantieme, Bonds and Contingencies	$458,986.83
Dividends at the rate of 16% per annum	1,000,000.00
Passed to Undivided Profits	428,000.00

making the total amount in Undivided Profits account as of December 31, 1930, as stated above - - - - - - - - - - - - - - $5,028,000.00.

During the past year we had no such unusual profits as occurred during 1929, which were fully explained in our report of that year.

Earnings of the International Acceptance Bank, Inc. since its inception are shown on page 4.

While the volume of acceptances outstanding at the end of the year totaling $92,694,883.37, was somewhat less than the $98,243,981.95 outstanding at the end of 1929, it was substantially in excess of the total of $68,167,358.87 outstanding at the end of 1928. On the other hand the daily average of acceptances outstanding during the year 1930 - $89,900,000. - was considerably in excess of corresponding figures for previous years, as is indicated below:

1930	$89,900,000.
1929	71,039,000.
1928	62,635,000.
1927	45,307,000.
1926	40,259,000.
1925	39,100,000.
1924	30,600,000.
1923	24,809,000.
1922	18,764,000.

INTERNATIONAL ACCEPTANCE BANK, INC.

SCHEDULE OF EARNINGS AND EXPENSES

Year Ending December 31st.

	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Earnings	$542,038	$1,571,718	$1,651,030	$2,539,320	$2,790,019	$3,293,196	$3,129,387	$3,348,201	$5,304,450*	$3,118,509
Expenses	452,453	500,518	683,775	759,552	907,883	995,193	1,025,569	1,213,248	1,191,223	1,231,522
Net Earnings	$ 89,585	$1,071,200	$ 967,255	$1,779,768	$1,882,136	$2,298,003	$2,103,818	$2,134,953	$4,113,227	$1,886,987
Taxes, Profit-Sharing Charge Offs, Extr. Reserves, etc.	$ 7,585	$ 183,700	$ 304,119	$ 837,089	$ 927,000	$1,310,300	$1,042,568	$ 798,006	$2,383,352	$ 458,987
Dividends Paid					205,000	410,000	461,250	662,387	1,000,000	1,000,000
Trans. to Undivided Profits	$ 82,000	$ 887,500	$ 663,136	$ 942,679	$ 750,136	$ 577,703	$ 600,000	$ 674,500	$ 729,875	$ 428,000

Note:--Figures shown for 1921 are for April 1st to December 31st.
*Includes profit from sale of 52 Cedar St. property and other non-recurring profits. $1,609,000

An analysis of acceptances outstanding at the close of the last five years.

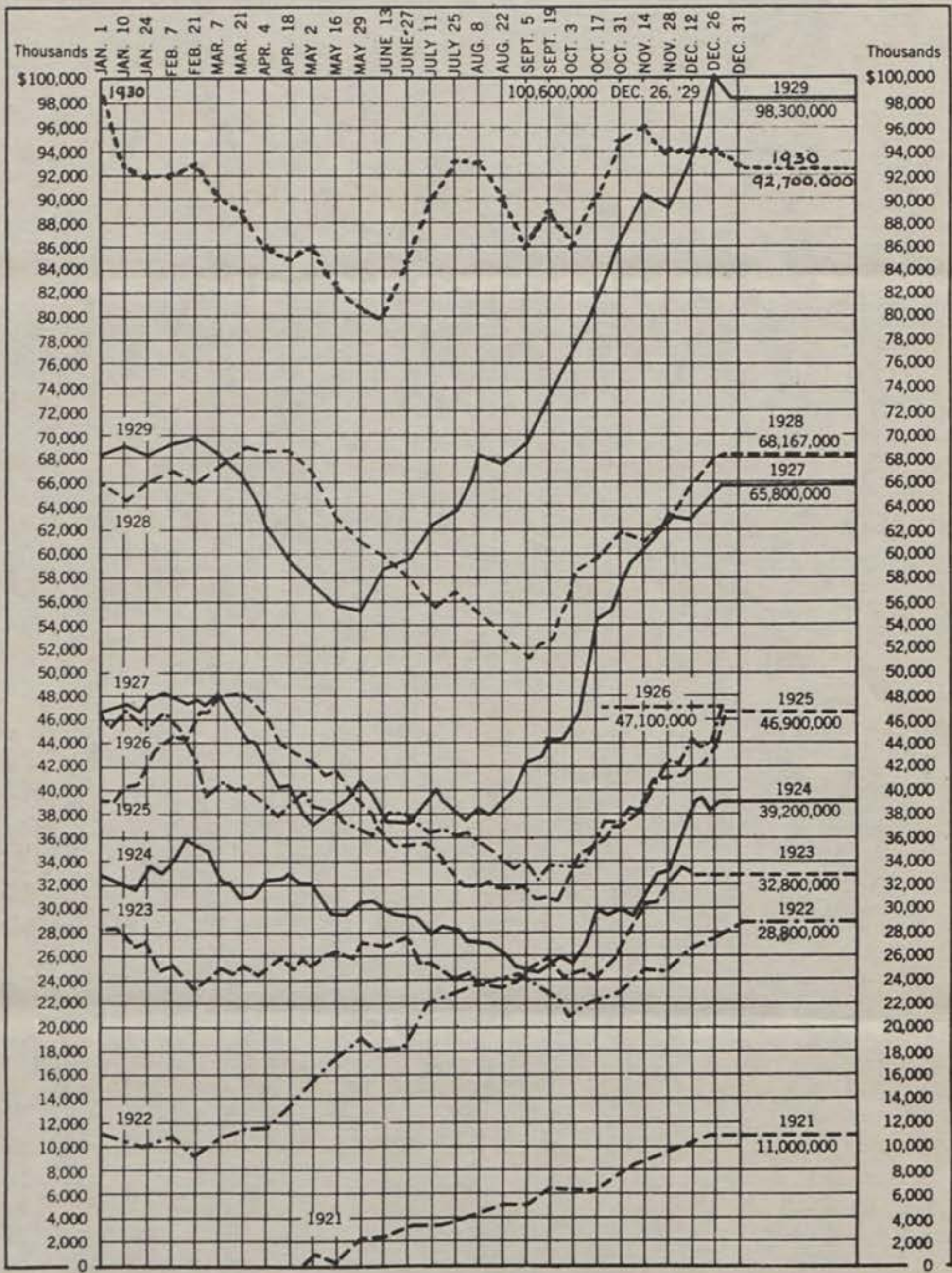
	1926	1927	1928	1929	1930
Exports from U.S.A.	$19,713,688	$25,924,586	$30,804,534	$36,505,182	$26,111,640
Imports to U.S.A.	18,395,979	10,220,300	10,460,053	21,138,426	15,585,714
Movement of mdse. between foreign countries	11,842,906	18,264,720	20,660,813	32,146,038	42,053,017
Mdse. stores in warehouse	4,356,602	10,256,454	4,019,590	5,107,335	4,548,000
Domestic Shipments					1,606,022
Dollar Exchange	1,808,363	1,119,538	2,222,368	3,347,000	2,790,490
	$47,117,538	$65,785,598	$68,167,358	$98,243,981	$92,694,883

The attached chart (page 6) shows the volume of dollar and foreign currency acceptances outstanding at various fortnightly periods during each of the years since our formation.

As in the past we have made every effort to maintain a satisfactory diversification, both as to countries and commodities, of the credits which we have extended. At the end of the year we are extending credits in 35 countries to finance 39 major commodities. The following comparison may be of interest:

Year	Countries	Commodities
1930	35	39
1929	34	37
1928	38	35
1927	35	33
1926	37	32
1925	25	33
1924	23	29
1923	23	29
1922	14	22
1921	14	21

The improvement in the broadening of the bill market, which was evidenced during the last part of 1929, has continued, and although, as in the past, the bulk of the bills is still held by the Federal Reserve banks either for their own account or for account of purchases made for foreign central banks and Governments, a much larger volume of bills has been purchased by the accepting banks themselves and many new buyers among the banks, trust companies, savings banks, insurance companies and larger corporations have appeared in the market. This is a most encouraging development. Our bills have always moved freely at prime rates, and never at any time have we been compelled to hold any of our own bills in our portfolio.



COMPARATIVE GRAPH SHOWING ACCEPTANCES OUTSTANDING 1921 to 1930 INCLUSIVE

INTERNATIONAL ACCEPTANCE BANK, INC.

The average acceptance commission which we receive increased slightly during the past year, as appears from the following comparative figures:

1930	1.174%
1929	1.169
1928	1.250
1927	1.426
1926	1.912

Once more I am happy to report that during the past year our total credit losses were very moderate being less than $40,000.

The amount "Due to Banks and Customers" at the end of the year was - $44,540,004.
against a total at the end of 1929 of - - - - - - - - - - - 43,371,000.
Our vostro accounts represented 824 foreign accounts, against 759 in 1929.

During the past year we arranged for two importations of gold totaling - $ 3,000,000.
The figures following show the number of gold importations and exportations, together with the amounts of the shipments, for each year since 1924.

EXPORT GOLD

	No. Shipments	Amount
1924	12	$11,752,232.38
1925	42	12,944,488.94
1926	29	4,211,933.46
1927	20	5,989,578.20
1928	4	6,027,655.78
1929	1	1,282,473.61
1930	0	0
Total	108	$42,208,362.37

IMPORT GOLD

	No. Shipments	Amount
1924	3	$10,170,183.38
1925	2	2,796,783.51
1926	2	275,252.08
1927	5	1,474,610.11
1928	5	10,784,790.73
1929	6	8,313,971.30
1930	2	3,000,000.00
Total	25	$36,815,591.11

Mr. Robert Louis Hoguet, Vice President of the Emigrant Industrial Savings Bank, was elected to our Board of Directors in December 1930 and the Hon. Alanson B. Houghton joined us as a Director in January, 1931.

The following changes have taken place among our executives for the year ending January 20, 1931:

Mr. Charles B. Hall resigned as Secretary to become Vice President of The Manhattan Company, and Mr. L. D. Pickering was appointed Secretary to succeed him.
The following officers have also resigned, - the first three to accept appointments with the Bank of Manhattan Trust Company:

Mr. A. H. Titus, Vice President
Mr. L. R. Mahoney, Assistant Treasurer
Mr. A. J. Moutrie, Assistant Treasurer
Mr. R. W. Proctor, Treasurer
Mr. W. T. Sheehan, Assistant Treasurer

Mr. Fletcher L. Gill was elected Treasurer, as well as Vice President.

Mr. John P. Collins and Mr. W. T. Kelly, formerly Assistant Vice Presidents, were elected Vice Presidents.

Mr. Gorham P. Gensch and Mr. J. Phelps Wood, formerly Assistant Treasurers, were elected Assistant Vice Presidents.

Mr. Adolph Suehsdorf, Jr. was promoted from Assistant Secretary to Assistant Vice President, and Mr. James D. McDouall was appointed Assistant Secretary instead of Assistant Treasurer.

Early in the year we, together with the Bank of Manhattan Trust Company and the International Manhattan Company, Incorporated, made arrangements with Mr. Robert M. Hunt to act as our joint representative on the Pacific Coast and the far West, with headquarters in San Francisco.

During the year the Bank was appointed Fiscal Agent for the Nicaraguan Government and depository for its currency and bank reserves. Our Vice Presidents, H. J. Rogers and W. H. Schubart were appointed to serve in an advisory capacity to the Boards of Directors of the National Bank of Nicaragua, the Pacific Railways of Nicaragua, the Mortgage Bank of Nicaragua and the Compania Mercantil d'Ultramar, all owned directly or indirectly by the Nicaraguan Government.

In May, The Manhattan Company building was completed and the offices of the International Acceptance Bank, Inc., as well as the Head Office of the Bank of Manhattan Trust Company, the International Manhattan Company, Incorporated, and The Manhattan Company, were moved to these quarters. The grouping of the four companies in one building has greatly facilitated their cooperation with one another and has worked out most satisfactorily. The closer proximity has enabled the respective officers to bring about greater simplicity and efficiency of operation and very substantial economies. The new quarters have more than come up to our expectations and have proved satisfactory in every respect in regard to their general layout and are particularly pleasing in their exquiste form and detail. The building itself is owned by the 40 Wall Street Corporation, in which the various companies occupy six floors as tenants. The Bank of Manhattan Trust Company has retained title, however, to the original plot upon which a portion of the new building now stands. This plot was acquired in 1799 when The Manhattan Company was established, and has been occupied by it ever since.

FEDERAL RESERVE BANK

OF NEW YORK

April 10, 1931.

Dear Governor Meyer:

We have already forwarded to you a copy of the replies of this bank to the Questionnaire submitted by the Senate subcommittee. We failed, however, to forward to you a copy of an office memorandum prepared in our research department on the general question of brokers' loans, which Mr. Glass requested us to forward to his committee. This memorandum was prepared for consideration by the committee of governors appointed by the last governors' conference to consider Federal reserve practice and procedure. It occurred to me that it might be of interest to the Board, so I am sending it to you under separate cover today.

Very truly yours,

George L. Harrison

Governor

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

MEMORANDUM ON

BROKERS LOANS BY OTHERS

Woodlief Thomas
Reports Department
Federal Reserve Bank of N. Y.

February 13, 1931.

BROKERS LOANS BY OTHERS

It is commonly recognized that one of the most difficult problems in all attempts to check the growth of stock exchange speculation in 1928 and 1929 was that of controlling the expansion of brokers loans by others. Some control was more or less effectively exercised over the expansion of brokers loans by banks, which showed practically no increase in 1928 and 1929, and it is probably reasonable to believe that even more stringent control could have been exerted. An increase in street loans by banks represents an expansion in bank credit and the growth of bank credit is limited by the volume of reserve funds available. The expansion of such loans can, therefore, be restricted by credit policy working through the existing channels of control. It is not necessary here to discuss the question of the desirability of such restriction at any given time in view of other less desirable consequences that it might have.

Brokers loans made by non-banking lenders, on the other hand, are not limited by bank reserves. At the same time loans by others represent in effect a potential liability on the part of banks in that if such loans are suddenly withdrawn, they must be at least partially replaced by bank loans in order to prevent complete collapse of the stock exchange mechanism and destruction of values back of bank loans. The flow of non-banking funds into the call loan market is not subject to direct regulation by Federal Reserve credit policy. In order to control these loans without disrupting the whole credit system other methods must be found.

Before discussing specific methods of control, it is well to investigate the mechanism of organization and operation of the security collateral loan market, to determine the role of brokers loans for others in this market, and to analyze the stock-market and money-market developments of 1928 and 1929.

A. Organization and Operation of the Security Loan Market.

This Bank is already on record in Congressional documents in regard to the organization and operation of the call-loan market.[1]

The principal characteristics of the security collateral loan market are as follows:

(1) The Market, as it is generally conceived, is centered around the New York Stock Exchange. The types of loans on securities for which statistics are available and their amounts on selected dates are shown in Table I.

1. Senate Document #262, 66th Congress, 2nd Session, March 29, 1920 -- "Rates of Interest on Collateral Call Loans." See also testimony of Governor Strong in the "Agricultural-Inquiry" and "Stabilization" hearings.

TABLE I. TOTAL REPORTED SECURITY LOANS [a]
(In Millions of Dollars)

	Oct. 3, 1928	Oct. 4, 1929	Sept. 24, 1930
To Brokers and Dealers in New York City Total	5,509	8,545	3,482
By Member Banks in New York City	880	1,096	1,714
By Outside Member Banks	1,019	789	758
By Other Lenders [b]	3,610	6,660	1,010
To Banks by Member Banks	274	320	175
To Customers by Member Banks Total	6,646	8,109	7,864
To Brokers Outside New York City	850	939	774
To Other Customers	5,796	7,170	7,090
TOTAL REPORTED SECURITY LOANS	12,429	16,974	11,521

a) From Federal Reserve Bulletin, November 1930, pages 660 and 763.
b) As computed by subtraction of member banks' loans from total borrowings; includes also loans by non-member banks.

Loans by banks and other lenders to brokers and dealers in securities in New York City shown in this table represent funds advanced in the open market for security loans. The other security loans grow out of customer and bank correspondent relationships. It would appear that brokers' borrowings or so-called "street" loans, represented nearly 45 per cent of all security loans in 1928, and 50 per cent at the maximum of such loans in the autumn of 1929, but that in 1930 they declined to 30 per cent of the total. Brokers' borrowings totaled around three billion dollars in 1926 and the early months of 1927, rose steadily to 8.5 billions in October 1929, and by the end of

September 1930, had declined to 3.5 billions. At present they amount to less than two billions.

There are two types of street loans -- demand or call loans and time loans. The former make up by far the larger part of the total, borrowings by members of the New York Stock Exchange on demand ranged from about 68 per cent of the total in April 1926, to nearly 92 per cent from April to October 1929. Demand loans may be called the day after they are made but as a matter of fact most of them are renewed; some call loans have been outstanding for several years. Owing to the open market nature of the transaction, the calling of loans involves no personal feeling on the part of either borrower or lender. In fact such loans are decidedly impersonal, resembling more in this respect the purchase of bills or commercial paper which are automatically paid at maturity than loans on security collateral to customers.[2]

It should be noted here, however, that often New York City banks make loans to brokers, or more particularly to security dealers, that are regular customers and in these cases a customer relationship rather than an "open-market" relationship is likely to exist, carrying with it an obligation to care for the customers' ordinary requirements. For some time New York City banks have reported figures showing the portion of brokers loans for their own account that are made directly to customers. These figures for selected dates are as follows:

2. For a thorough description of the organization and operation of the New York security collateral loan market see J. E. Meeker, "The Work of the Stock Exchange," Chapter XIX.

TABLE II BROKERS LOANS REPORTED BY NEW YORK CITY BANKS
(In Millions of Dollars)

	Dec. 5, 1928	Oct. 2, 1929	Sept. 24, 1930
Total for all accounts	5,395	6,804	3,222
For own account:			
Total	1,271	1,071	1,721
To customers	397	449	950

It can be seen that of all brokers loans made by New York City banks for their own account about 40 per cent were made directly to customers early in October 1929, and 55 per cent a year later. The proportions to total brokers loans for all accounts were about 7 per cent in October 1929, and 30 per cent in 1930. In other words most of the brokers loans at the maximum in 1929 were non-customer loans, whereas more recently a substantial portion has been for customers.

(2) The Borrowers of these loans are brokers and dealers operating principally in New York City. Most of them are members of the New York Stock Exchange, although the reported street loans of member banks comprise some loans to other brokers and dealers in New York. Brokers and dealers borrow to purchase and carry securities for customers and sometimes for themselves. An increase in brokers loans generally indicates an increase in customers' margin accounts and for this reason the brokers loans figures are often used as an index of speculative activity.

(3) The Lenders are divided for statistical purposes into two

main groups -- banks and others. The banks in turn may be subdivided into (a) New York City banks and (b) outside banks. The other lenders include private banks, foreign banking agencies, corporations, other brokers, and individuals. Figures showing the distribution of loans among these various groups of other lenders are not available. Fluctuations in brokers loans by banks and by others as compared with those of total brokers' borrowings are shown in Diagram I.

Figures given above in Table I indicate that loans by others comprised nearly 70 per cent of all reported brokers loans in October 1928, and about 78 per cent at the maximum in October 1929, while a year later they had declined to less than 30 per cent. In October 1928, outside banks were lending more on the street than New York City banks, while in October 1929, the latter showed the larger volume of such loans, and in September 1930, loans by New York banks were practically as large as the total of those by outside banks and by others. The dominance of loans by others during the period of speculative activity in 1928 and 1929 is clearly indicated. In this connection see also Diagram I.

(4) Process of making loans. -- "Security collateral loans can be and are negotiated in New York in three different ways; (1) by direct dealings between borrower and lender; (2) through professional money brokers; and (3) through the "money desk" system on the floor of the New York Stock Exchange."[3] No exact information is available as to how much is negotiated through each of these various means. Time loans are never made through the money desk on the Exchange, but are made directly between borrowers and lenders

3. Meeker, "The Work of the Stock Exchange," page 284.

Reports Department
J. 10, 1931.
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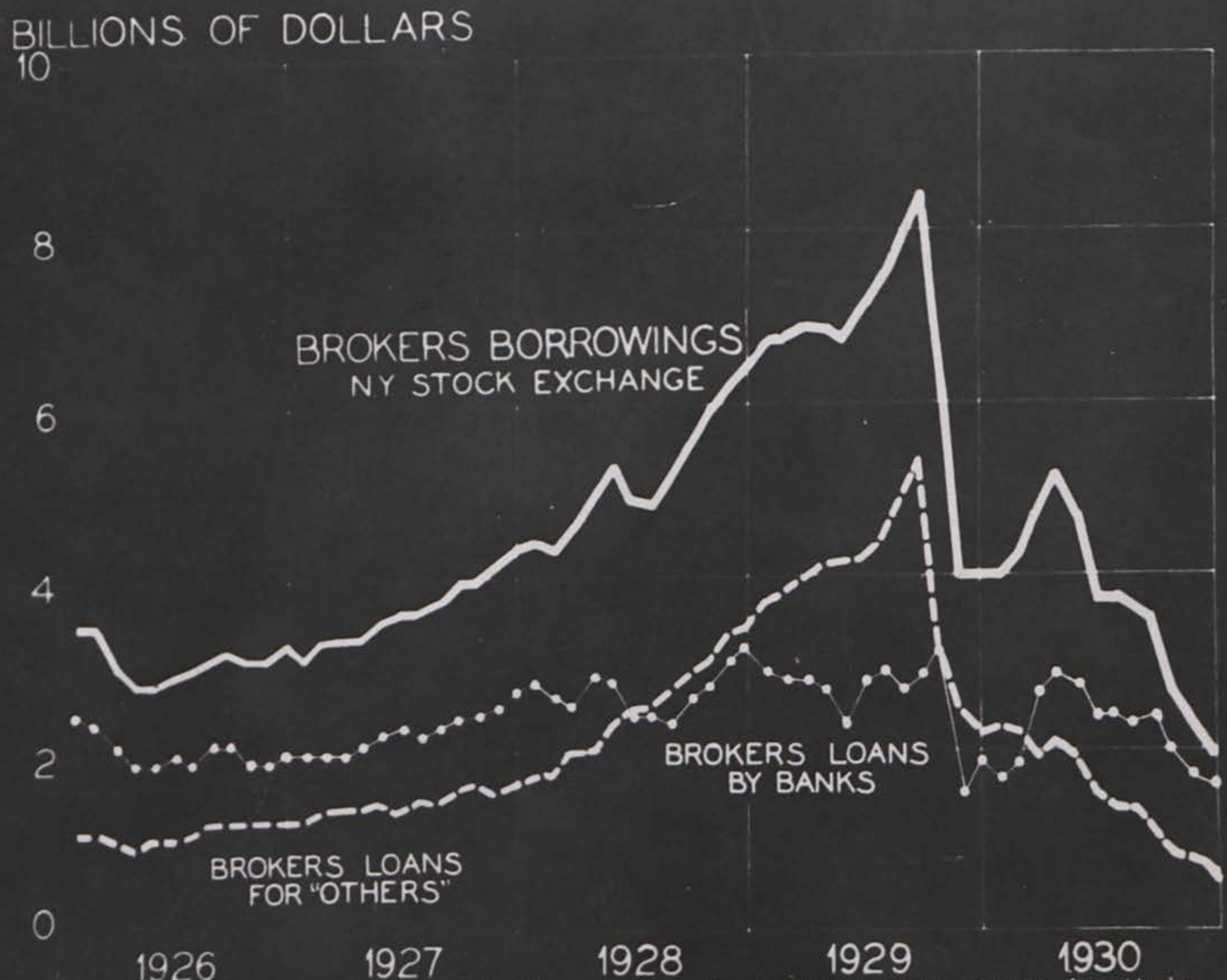
Borrowings of Members of the New York Stock Exchange, Showing Amounts Supplied by Banks and Amounts Supplied by Other Lenders



(Brokers loans by banks include loans placed by New York member banks for their own account and for out-of-town banks, the latter including loans for the customers of those banks. Loans for "others" include loans placed by reporting New York banks and also borrowings of Stock Exchange members from sources other than New York banks).

DIAGRAM I.

and through money brokers. A large part of new call loans are made through the money desk of the Exchange, although there is considerable variation in this proportion depending upon the relation of rates fixed on the Exchange to those prevailing outside. Most of the outstanding call loans, however originally made, are renewed each day at the renewal rate posted at the money desk.

Funds offered at the money desk must be presented by a member of the Exchange. Bankers and other lenders having funds to lend arrange with member firms to offer them. Call loans are generally made under general or "blanket" loan agreements kept on file with lending institutions and the only specific evidence that the lender has of any individual loan appears on the security collateral envelope that he receives from the borrower. Borrowers upon notification that a loan has been arranged deliver collateral to the lender and obtain the funds. The lender or the lending agency and the borrower deal directly with each other in calling and paying off the loan. If desired, the payment of money and delivery of securities in making or paying the loan may be effected through the Stock Clearing Corporation. For this purpose financial institutions may become "lending members" of the Stock Clearing Corporation. Through this organization a large volume of unnecessary transfers of securities and of funds is eliminated.

(5) Lending Agencies. -- A large proportion of brokers' borrowings are obtained from New York City banks that may lend funds for their own account or for the account of correspondent banks or customers. Of the total borrowings of members of the New York Stock Exchange, the part negotiated by

New York banks and trust companies in recent years ranged from a maximum of 87 per cent in March 1926, to a minimum of about 82 per cent in July 1929. In 1930 this ratio rose to above 89 per cent. The remainder was obtained directly from other lenders or through other agencies.

In negotiating these loans New York City banks may, as stated above, lend funds of out-of-town correspondent banks, or of other customers. The proportions of their loans represented by these different classes varied as follows during the period 1926 - 1929:

TABLE III BROKERS LOANS BY NEW YORK BANKS

Proportions for different accounts

	MAXIMUM	MINIMUM
For own account	43% -- June 1926	14% -- October 1929
For account of out-of-town banks	44% -- March 1927	18% -- November 1929
For account of others	59% -- October 1929	18% -- January 1926

In 1930 loans for own account rose to 60 per cent, while those for out-of-town banks declined to 12 per cent and those for others to 19 per cent.

Loans for the account of others reported by New York City banks do not include all loans made by non-banking lenders. In addition loans are obtained directly by Stock Exchange members and reported by them and also the loans made by New York banks nominally for out-of-town banks have also included at times a substantial volume of loans for others arranged by these banks through their New York correspondents. It is possible to estimate the amounts of the last group of such loans at member bank call report dates.

Table IV shows the total of New York Stock Exchange members' borrowings, loans by member banks, and loans by others at reporting dates nearest the call report dates, with the distribution of loans by others among those obtained directly by New York Stock Exchange members, those reported by New York City banks for the account of others, and those made for others by outside member banks through New York City banks.

TABLE IV DISTRIBUTION OF BROKERS LOANS BY LENDING AGENCIES
(In Millions of Dollars)

	Oct. 3, 1928	Oct. 4, 1929	Sept. 24, 1930
Total borrowings of New York Stock Exchange members a)	5,514	8,549	3,481
Street loans by member banks	1,899	1,885	2,472
Brokers loans by other lenders b)	3,487	6,416	1,168
Reported by New York Stock Exchange c)	866	1,472	425
By New York banks for account of others d)	1,958	3,907	719
By outside banks for others e)	663	1,037	24

a) For nearest end-of-month dates. Chiefly because of differences in reporting dates the figures for total borrowings do not equal the sum of the groups following.
b) Totals of sub-groups following. Chiefly because of differences in reporting dates these totals do not agree with figures given in Table I.
c) For nearest end-of-month dates.
d) For nearest Wednesday dates.
e) Estimated by subtracting call report figures of street loans for own account from nearest weekly reporting bank figures of brokers loans by New York banks for the account of out-of-town banks.

At the beginning of October 1929, when loans for others as well as total brokers' borrowings were at a maximum, loans for others made up over three-fourths of total brokers loans; this amount was subdivided as follows:

those reported by the Stock Exchange, 23 per cent of all loans by others; those made by New York City banks for the account of others, 61 per cent; and those made by outside banks through New York banks, 16 per cent.

Taking the last two groups together, it seems that, at the maximum, 77 per cent of all loans for others and 58 per cent of all brokers loans represented loans for others negotiated by New York City banks. In October 1928, when such loans were more moderate, although large, they amounted to 48 per cent of all brokers loans, while by September 1930, they had declined to about 20 per cent of the total.

Loans obtained by Stock Exchange members directly from private banks, brokers, foreign banking agencies, corporations, etc., amounted to less than 400 million dollars or 13 per cent of all brokers' borrowings in the spring of 1926, rose to over a billion dollars by the end of 1928, and on September 30, 1929, reached a maximum of nearly a billion and a half dollars. From August 1928 to July 1929, the percentage of this group to total brokers' borrowings increased from 14 per cent to 18 per cent. As this was a period of attempts to restrict the growth of brokers loans these comparisons indicate the extent to which other sources of funds less subject to control were tapped. Despite the increase in loans from these sources, it is clear that the majority of brokers loans continued to be negotiated through the agency of New York City banks and trust companies. It is true that most of the funds came from other lenders but there may be some question as to how many of such funds would have been placed in call loans had there not been such reliable and trustworthy institutions to act as agents in the transactions.

B. Relation of the Call-Loan Market to Other Branches of the Money Market

The New York call-loan market is a distinctive institution and no other important money center has a similar market so organized and so thoroughly developed.

(1) Evolution of call-money market. -- Explanation of the development of the New York market lies in the monetary and banking history of the country. Its evolution has been attributed to two factors (1) the absence of a market for short-term funds, such as was filled by the bill market in other centers, and, on the other hand, (2) the demand for capital in this country which encouraged the growth of the stock exchange to a position of importance. In short, according to this theory, the country needed long-term funds for the development of domestic industry relatively more than it needed short-term funds for the financing of trade and commerce.[4] Before the war our foreign trade, which requires short-term funds, was largely financed in other money centers.

(2) Market for surplus funds. -- Traditionally only surplus short funds were used in the call-loan market.

"In the matter of the supply or attraction of funds to the call-money market, there is generally a definite and well understood obligation on the part of banks to accommodate first their own commercial clients, so that it is only the excess of loanable funds which they may have from time to time that is available for the collateral call-money market or for the purchase of commercial paper in the open market. This excess of loanable funds available for employment in the securities market varies, therefore, according to the commercial requirements of the country. It has long been recognized that for assurance of a sufficient amount of money to finance the volume of business in securities, reliance cannot be placed on a rate of interest limited to the rates which obtain or are permitted in commercial transactions whose prior claim on banking accommodations is universally conceded." [5]

4. See Meeker, Op. Cit. Chapter XI.

5. Senate Document #262. Op. Cit. p. 6.

(3) Relation to bank reserves. -- Before the organization of the Federal Reserve System a large part of the reserve funds of country banks was deposited with New York banks. These funds were used by the New York banks at will; generally, however, being subject to sudden withdrawal, they were put into the most liquid possible use. The call-money market developed in part to fill this need. At times when outside banks found themselves with surplus funds they would have their balances, or part of them, loaned on call for their own account, thus obtaining higher yields than were paid by New York banks on deposits.

This custom of keeping bank reserves and surplus funds in call loans made this market a "marginal" market, particularly sensitive to relatively small changes in the supply of and demand for funds. The strain that this feature of the market placed upon bank reserves and its relation to earlier financial crises need not be discussed here.

(4) Call loans under the Federal Reserve System. -- Under the operation of the Federal Reserve System, the New York money market was largely relieved of the burden of carrying the bank reserves of the country and of its attendant dangers. At the same time commercial loans were given preferred status over loans on securities by the Federal Reserve Act provisions for discountable paper, and this tended to lessen the relative desirability of call loans for the employment of bank funds. As a result under the Federal Reserve System call-loan rates have over a period of years averaged somewhat higher relative to other money-market rates than they did in pre-Federal Reserve days. In part because of higher rates and in part for reasons given below the proportion of bank funds in street loans has, however, shown no reduction.

As a result of the ease with which funds could be placed in or withdrawn from call loans, this market continued, in effect if not in theory, to be a highly liquid and a useful medium for carrying secondary reserves. In fact there has probably been some increase in the popularity of call loans as secondary reserves and a growth of the feeling that good banking practice required the keeping of some funds in this market regardless of other demands.[6] Such a practice, if widespread, would seem to be contrary to the traditional idea, previously mentioned, that only surplus funds found their way into the call loans after commercial requirements had been given first consideration. As a matter of fact the call-money market may be said to fill both functions.

Other reasons that have been given for the increase in street loans by banks from 1923 to 1927 were on the one hand the growth in bank resources and on the other hand the changed financial policy of corporations whereby short-term indebtedness was considerably reduced. As a result the banks had surplus funds which in accordance with customary banking practice were placed in security loans.

6. On this point see testimony of Prof. Sprague in Hearings before the Senate Committee on Banking and Currency on the LaFollette Resolution, March 7, 1928.

C. Summary of Developments in 1928 and 1929

Brokers loans increased rapidly from the end of 1921 to the end of 1927, with temporary declines in 1923 and 1926. The problem of the control of this growth was a banking problem. Most of the increase occurred in loans by banks, while loans by others were apparently moderate in amount and showed only a small growth. (See Diagram I.) Early in 1928 steps were inaugurated to limit the expansion of brokers loans. Federal Reserve credit policy which during the latter part of 1927 had been directed toward ease in the money market was reversed. In the first quarter of the year the discount rate of each Reserve Bank was raised from 3.5 to 4 per cent and United States security holdings of the Reserve Banks were reduced by 100 million dollars. (See Diagrams II and III.) Brokers loans by banks were reduced. The rise in share prices was temporarily checked, but later, rising money rates attracted funds for brokers loans from other lenders, and with this support the rise in share prices was resumed.

In the second quarter of 1928 following a renewed increase in brokers loans by banks, the Reserve Banks raised their discount rates another half a point. Banks again reduced their brokers loans and share prices showed some recession. Under the influence of general liquidation of bank credit, furthered in July by another set of Reserve Bank rate increases, the stock market continued irregular until the middle of August. Money rates became steadily firmer and loans by others attracted by the higher rates continued to expand, offsetting the decrease in bank loans.

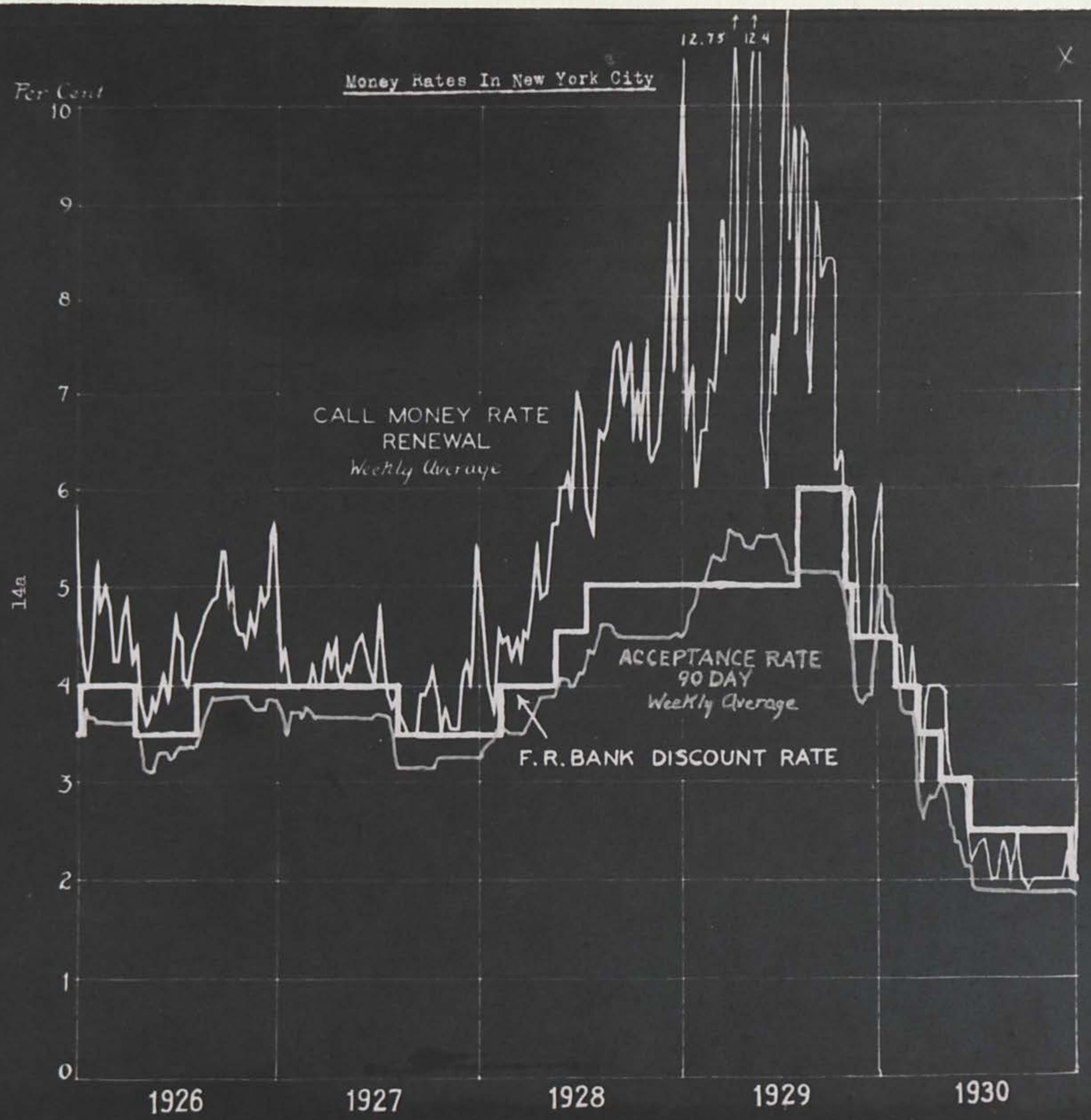


DIAGRAM II

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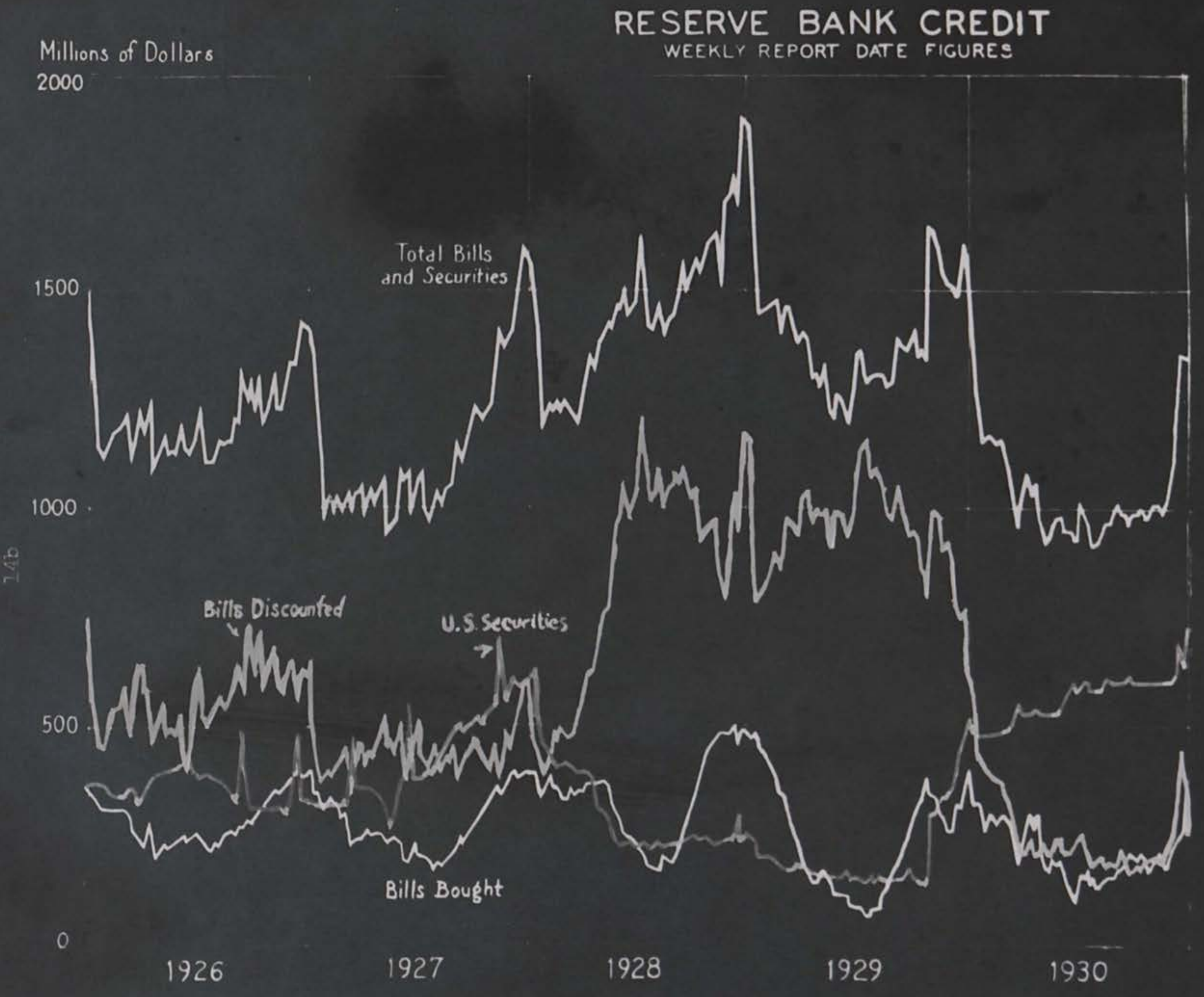
RESERVE BANK CREDIT
WEEKLY REPORT DATE FIGURES
Millions of Dollars
2000
1500
1000
500
0
Total Bills and Securities
Bills Discounted
U.S. Securities
Bills Bought
1926
1927
1928
1929
1930

DIAGRAM III.

A sharp rise in share prices began in August 1928, and continued until the end of November with exceptional stock market activity accompanied by increases in brokers loans by banks, as well as by others. (See Diagrams I, IV and V.) The increase in loans by others occurred despite attempts by New York banks to restrict such loans. In August the charge for placing loans for other lenders was changed from 5 per cent of the interest received on the loan to one-half of one per cent per annum, a revision which resulted in a higher charge when the interest rate was below 10 per cent.* Bank credit expansion in this period was based upon reserve funds supplied by Federal Reserve bill purchases, especially in November after the peak of the autumn commercial demands had been passed. (See Diagram III.) Call-money rates, however, continued to rise.

Early in 1929 efforts were renewed to restrict the growing volume of stock-market loans, the effects of which were being felt throughout money markets abroad as well as in the United States. Warnings were issued by the Federal Reserve Board, and there was considerable public agitation in favor of restriction of stock-market activities. Reserve Bank action took the form of increase in bill rates and moral suasion on member banks to curtail the volume of stock-market loans. There was a rapid retirement of Federal Reserve credit extended through the bill market and a corresponding increase in member bank indebtedness. (Diagram III.) Share prices showed wide fluctuations during the first five

* In addition a minimum of $100,000 was required on loans placed for any one lender.

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Jan 16 1.

Brokers Loans Reported by New York City Member Banks Compared with Standard Statistics Company Indexes of Stock Prices

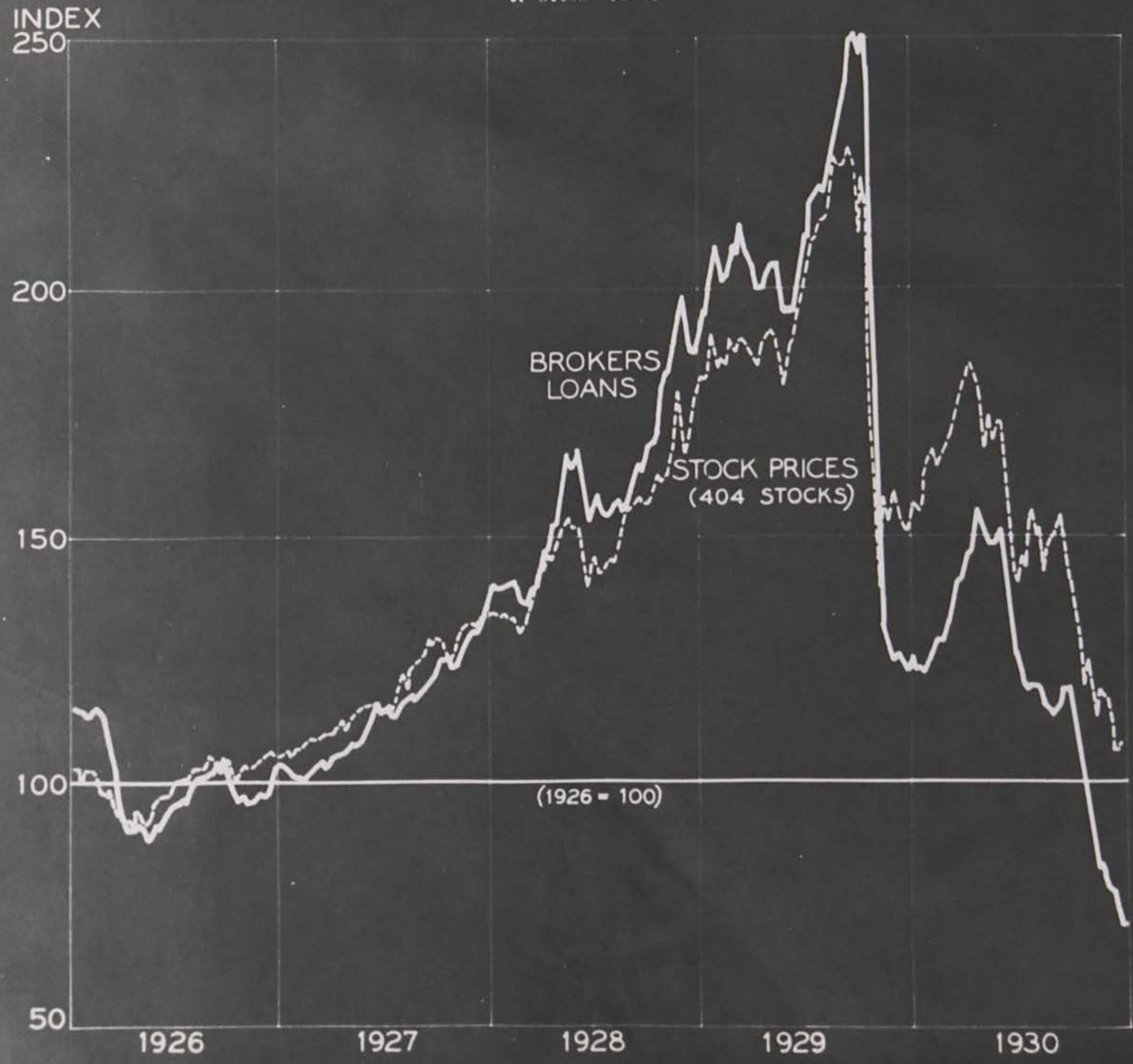

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DIAGRAM IV.

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Jan 16 1

Volume of Trading on New York Stock Exchange Compared with Number of Shares Listed
(Indexes; 1926 = 100 per cent)

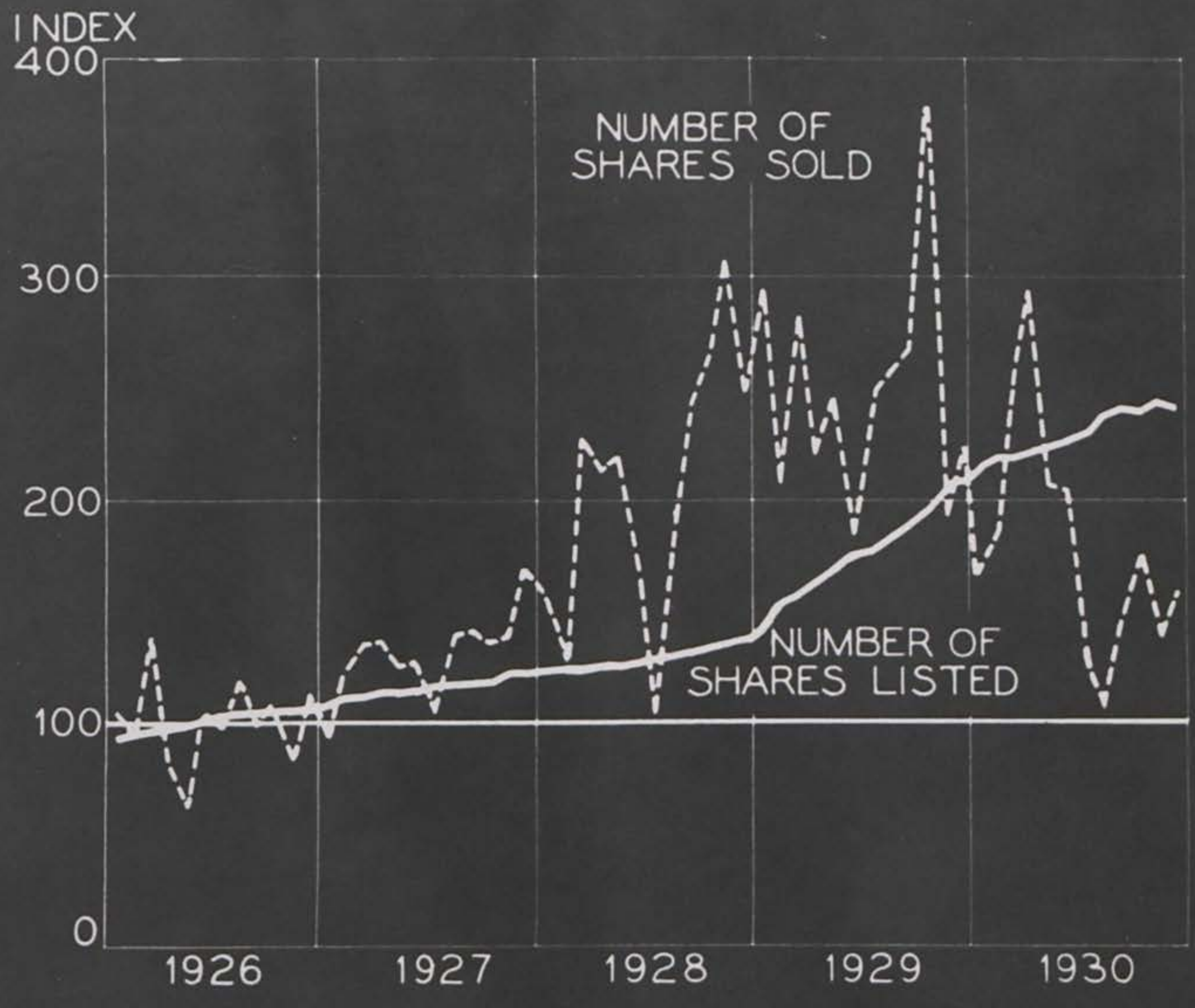

DIAGRAM V.

months of the year and there was some reduction in stock-market activity. (Diagrams IV and V.) Street loans by banks were reduced by about a billion dollars to the lowest level in two years; loans by others increased by a billion dollars in the first three months but showed little further growth in April and May. (Diagram I.) There were wide fluctuations in call-loan rates, and on two or three occasions rates rose over 15 per cent at which level funds were offered by New York banks and the rises were checked. In May share prices and brokers loans declined and at the end of the month were at about the same level as at the beginning of the year. (Diagram IV.) This led to some hope that the expansion of stock-market activity had been finally checked.

The relatively low level reached by share prices, brokers loans, and call-loan rates at the end of May was followed in June by a new buying movement. The rise in share prices was accompanied by a substantial increase in brokers loans by New York City banks. Heavy stock market demands for credit together with mid-year settlement needs caused a sharp rise in call-loan rates despite the large supply of funds offered by New York City banks. In July an abundance of funds from other lenders began to come into the market, and, following New York Federal Reserve Bank action on August 9th in increasing its discount rate from 5 to 6 per cent and lowering its bill buying rate from 5 1/4 per cent to 5 1/8 per cent, bank loans to brokers decreased.

The rise in share prices during the summer months was more rapid than all previous rises, as was the increase in brokers loans. (Diagram IV.) In the third quarter of 1929 total brokers loans increased by a billion and a half dollars, practically all of which represented loans by others. An unusually large volume of new stock issues at this time -- aggregating a billion dollars in September alone -- provided funds which were in large part placed in brokers loans, but at the same time the sale of these securities put a heavy strain on the absorptive powers of the market. Note the increase in shares listed on the New York Stock Exchange shown on Diagram V. Share prices weakened in September, while brokers loans continued to increase.

In October share prices turned definitely downward, and in the last week of that month and the first half of November there were a series of severe declines which carried the price averages to a level about 40 per cent below the high level reached at the beginning of September. Brokers loans showed no decrease worthy of note until the last ten days of October when nearly three billion dollars[7] of funds were withdrawn from stock-exchange loans by out-of-town banks and other lenders, and New York banks had to rush to the rescue with nearly a billion dollars in order to lessen the severity of the crash. The Reserve Banks aided with security purchases and discount rate reductions.

The relative ease of money throughout October and the fact that brokers loans did not decline until after the fall in share prices would

7. This three billion dollars deserves explanation, as the weekly figures showed a decline of a little over two billions. The assumption that the October decrease of 675 millions in loans by others reported by the Stock Exchange practically all occurred at the end of the month raises the total to nearly three billions.

indicate that the price break was not initiated by any withdrawal of funds loaned on the stock market. Events abroad and the rise of foreign exchange rates indicate that foreigners were probably liquidating their American stock holdings. Business at this time was beginning to show definite signs of recession and commodity prices had turned downward.

In 1930 brokers loans declined further, interrupted by a rise in the spring. In part loans to brokers were replaced by security loans to customers. Loans by others declined steadily throughout the year, reaching almost negligible proportions, and banks, especially New York banks, again became the dominant source of funds for the security loan market.

D. Role of Loans by Others in 1928 and 1929

From the preceding summary of events, it is apparent that loans by others were dominant influences in the stock market-activity of 1928 and 1929. On several occasions restrictions placed on brokers loans of banks by Federal Reserve credit policy, by other money-market developments, or by the banks themselves were nullified by an expansion in loans by others. This occurred early in 1928, again in April and May and in July and August of that year, in the first quarter of 1929, and finally in August and September of 1929 when the increase in loans by others seemed completely out of control.

At times attempts were made by New York banks to control the volume of loans by others -- commission charges were raised and such loans were discouraged. These efforts were apparently ineffectual. At one time such effect as they may have had was nullified in part by a more rapid increase in loans by others placed through Stock Exchange members.

There were times, however, when withdrawals of loans by others were temporarily replaced by bank loans, and either developing stock market weakness was averted or a rise was given support. This occurred especially at important end-of-quarter settlement dates. Striking examples were at the close of the first quarter of 1928, the mid-year 1928, the end of 1928, and the mid-year 1929. The last instance gave support to an incipient rise of share prices which with later support from loans by others was destined to reach previously unequalled proportions and to end in the stock market crash of October 1929.

Question may be raised as to the source of the enormous volume of funds employed in brokers loans by others. Although little information on this point is available, it would appear that a large part if not most of them, came from domestic corporations -- financial and industrial. Loans to brokers for foreign agencies were probably small relative to the total, although a large volume of foreign funds came into the American money market through the purchase of securities and acceptances, attracted in the first instance by the opportunity for profit and in the second by high money rates. Loans were also made by individuals, private banking houses, and other brokers.

The abundance of corporation funds in brokers loans was due to corporation financial policy in recent years in accumulating large cash reserves and the ease with which new securities, especially stocks, could be issued. New security issues, excluding refunding by domestic corporations, increased steadily from 2,600 million dollars in 1923 to over 5,300 millions in 1928 and nearly 8,000 millions in 1929. Of these 2,200 millions in 1929 were for investment companies, designed for the purchase of securities. Many of the investment companies' funds, held awaiting investment, and those of other corporations, not immediately required in business, were placed in brokers loans. This was undoubtedly an important source of funds for loans by others in the summer and early autumn of 1929 when new stock issues were unusually large, call-money rates high, and stock prices rising to levels where investment purchases were hardly prudent. The heavy stock issues in September probably strained the absorptive capacity of the stock market and were a factor in the price weakness then developing and at the same time provided funds for the increase in brokers loans which continued until early October. The continued high levels of brokers loans and the decline in money rates during the first three weeks of October are probably also indicative of the abundance of funds being offered on the money market.

E. Objections to Brokers Loans by Others

Dangers growing out of such developments as those of 1928 and 1929 are indicated by the final turn of events. In defense of the call-money market, it has been correctly said that the market has grown up as a result of certain demands of the American economy and is inherent in our credit and banking system; that call loans are, on the whole liquid, as funds can be withdrawn quickly at will; that call loans are safe, in that there is, at least in recent years, no record of a loss by a lender; and finally that for these reasons the call-loan market provides a well organized, convenient, and useful medium for the employment of momentarily idle funds and for secondary bank reserves. It is also pointed out that the market performs a legitimate function in supplying short-term funds needed in the distribution of securities and in providing a continuous market for securities.

It may be said, on the other hand, that largely because of the smooth operation of the New York call-loan market, investment and speculative activities in this country have available for use a greater supply of short-term funds than can be obtained in any other country, and that consequently, these activities have become considerably over-emphasized. Speculation in securities is encouraged, with all the attendant dangers that excess speculation entails. The liquidity of call loans has also been questioned by some -- in the first place they are not automatically self-liquidating as are loans based on certain commercial transactions, and in the second place, in periods of excess speculation a large volume of such loans cannot be called without destroying the values behind those remaining. In fact, however, under present conditions such loans can always be quickly liquidated, as is amply illustrated by events in 1929, when the possibility of difficulties was more likely than under any other conditions that may reasonably be imagined.

Another danger in over-expansion of brokers loans is that in periods when speculation has gained momentum call loans will bring high rates and thus raise rates in other money markets to levels prohibitive for some industries needing to borrow short-term funds. Corporations may at such times obtain funds readily and cheaply by issuance of shares but those branches of business requiring short-term commercial funds or dependent upon bonds and mortgages for their financing are penalized. Another objection to a large and sustained increase in brokers loans is that short-term funds are in effect being used to supply capital to corporations by enhancing the market for new security issues and thus an over-expansion of capital equipment is encouraged.

The growth of loans by others to a position of dominance in the call-money market raised some new questions as to the uses and mis-uses of call loans. In the first place, these loans from outside defeated attempts to control speculative activity by limitation of bank loans to brokers; secondly, as mentioned in the beginning of this memorandum, funds thus obtained were not subject to direct control by bank credit policy; and thirdly, they imposed a potential liability on the banking system to prevent the collapse of the market in case of their sudden withdrawal. In the fourth place, although previously such loans had been made chiefly from momentarily idle funds, in 1928 and 1929, it seemed evident that lenders were attracted to the market by high rates prevailing. As a result, funds were drawn from other uses, there was a general rise in money rates, and a large volume of foreign funds were attracted to this market, causing severe stringency abroad.

Finally, a large part of such funds came from new stock issues, thus setting up a circular inflationary process whereby share values were increased and new issues were floated on the basis of loans the funds for which were derived from stock issues. Such a system became largely self-contained with little direct effect upon other branches of the money market. Although some sellers of securities used their receipts for business or personal purposes, the larger volume of funds handled was returned to the stock market as loans to brokers. The net effect of these transactions was the swapping of existing bank deposits; no new bank credit was created and in effect there was no net flow of funds into industry and trade. There was, however, a tremendous inflation of the stock market, which was destined to end in a severe crash with all of its attendant dangers to the credit system. This made it necessary for the banks, especially in New York, to be kept in an unusually liquid condition in order to take care of the demands at the time of the crash.

F. Methods of Control

Various ways of preventing the growth of brokers loans to dangerous levels have been suggested. Most of them involve working through the banking system and vary from stringent credit policy with the conventional tools of discount rate and open-market operations to moral suasion. It was stated at the beginning of this memorandum that it would probably be possible to control bank loans by a severe credit policy, if the advantages were not outweighed by possible ill effects on other users of bank credit. Experience has shown, however, that loans by others may replace the bank loans and these loans are potentially more dangerous and less subject to control than bank loans. It may be possible to control these loans indirectly by credit policy but it would probably be at the cost of severe disruption to the entire credit system.

There are three general approaches to control of brokers loans by others:

(1) Limitation of demand -- this may be accomplished by some means of control over speculative activity in general.

(2) Limitation of supply --

(a) By curtailing the flow of outside funds to the call-money market through attraction to other money markets.

(b) By restriction of excessive new stock issues.

(3) Control over the money market mechanism that brings supply and demand together.

The first means of approach deals with speculation and with brokers loans in general and is not confined to loans by others. This problem is partly one of mass psychology, partly one of business cycle control, and partly one of more stringent banking and stock exchange regulation over the machinery of speculation. There are undoubtedly many restrictions that can be placed on stock-exchange operations and on banking practices in connection with the stock market that would prevent abuses and curtail excessive speculation. These might be effected through Stock Exchange regulations and banking rules.

The second means of control involves an investigation into sources of funds loaned to brokers by these other lenders. These funds came largely from domestic corporations -- financial and industrial -- and grew out of the policy of accumulating large cash holdings and the ease with which new securities could be issued. These might be controlled by stringent credit policy which would require the use of surplus cash or by reducing profits prevent its accumulation or which would depress the market for new securities. Some control could be exercised through policy of issuing houses in regard to new security issues -- periodical reports as to the size of their inventories would be useful. Investment trusts and similar organizations might also better regulate their operations both in selling their own stock and bond issues and in the use of their funds. The operations of bank security companies in the stock market are not publicly known; publication of statements by these companies would at least provide information in regard to their practices and probably discourage speculative practices.

The third approach would work through the machanism of organization and operation of the security collateral loan market. In this connection, the banks themselves might place stricter regulations around these loans. Although higher commission charges proved rather ineffective in 1928 and 1929, more radical advances in charges when the volume of such loans increases and money rates rise might be more effective. It is likely also that some banks did not discourage these loans. Banks might also exercise stricter requirements in regard to borrowers, for example, in respect to ratio of capital to borrowings.

One suggestion for control of the mechanism of brokers loans is that a tax be placed on call loans or more specifically call loans for others. Besides administrative difficulties, this measure would have the disadvantage of taxing sound as well as unsound transactions and unless the tax was very heavy might not be effective when money rates were high. The experience with higher commission charges is relevant in this connection.

It is entirely possible that effective control could be exercised by collaboration of the Stock Exchange and the New York banks. Stock Exchange regulations could be revised to require that members obtain loans only through banks and the banks in turn could by agreement or by Clearing House rules limit their street loans for correspondent banks and others as well as for own account. This may be done by high commission charges, by limitations on the amount of funds handled for any borrower, or by simply refusing to make the loans. Such a scheme would have flexibility in that restrictions could be relaxed when not needed or increased when the situation demanded.

Another specific means of control has been suggested -- the passage of a law prohibiting member banks to make brokers loans for non-banking lenders. These proposals for voluntary limitation and for statutory prohibition will be more fully discussed.

It has been pointed out that from 80 to 90 per cent of all funds borrowed by brokers are obtained from New York City banks and trust companies, lending either their own funds or those of correspondent banks and customers.

At the peak of brokers loans in 1929, 77 per cent of all loans for others and 58 per cent of all brokers loans represented loans for others negotiated bv New York City banks. If these loans could have been prevented or limited, along with the limitation of bank loans, the total of brokers loans would have remained within moderate limits.

Three principal objections may be raised to absolute prohibition of such loans. (1) It would make it difficult for corporations and others to find a liquid and convenient use for momentarily idle funds; (2) it would prohibit an important, and on the whole, useful service that banks perform for their customers; and (3) it might result in driving this type of business into other agencies more dangerous and less subject to control than member banks.

As to the first objection, it may be said that corporations and others could invest idle funds in acceptances or in short-term government securities. This practice is already followed by a number of leading corporations, and undoubtedly could be carried much further. Support to any movement in that direction would be, on the whole, beneficial, as would also some limitation on the practice of putting idle funds in brokers loans. It may be questioned, however, whether the short-term bill markets -- for acceptances or governments -- would meet every need. Maturities, for example, are difficult to arrange. If a call-loan market on the basis of acceptances and government securities in addition to stock-exchange securities could be developed, the importance of stock-exchange call loans might be diminished. Under present conditions, however, although some limitation of call loans by others would be desirable, absolute and complete prohibition might not be advisable if it could be avoided. Some corporations find this market exceedingly useful and under ordinary conditions such employment of corporation funds in moderate amounts is not dangerous.

In the second place, such a law would place an additional restriction upon membership in the Federal Reserve System. Banks perform a useful service for customers in investing their temporarily idle funds for them. Some banks might object to giving up this business as it helps them to keep their customers. Banks, of course, might obtain some advantage from such a restriction. Idle funds, if not invested in short-term bills, would probably be kept as bank deposits and therefore left under control of the banks.

The third objection is perhaps the most important, because it concerns the probable effectiveness of the law. It is claimed that because of the existing bank-customer relationship, because of the reliability and trustworthiness of banks, and because of their ability to handle the transactions, customers will not be likely to intrust their idle funds to other institutions to place in call loans. Loans may be made through brokers but the liability of brokerage houses, especially in times of great speculative activity, can not be relied upon to the same extent as that of banks.

Little assistance in determining the probable effectiveness of this prohibition can be obtained from the experience with loans arranged through other channels than banks in 1928 and 1929. When New

York banks raised their commission charges in September 1928, there was for a few months a more rapid growth in loans by others reported by the Stock Exchange than in those made by banks. The former, however, never amounted to more than 18 per cent of all brokers loans. It is likely that as long as banks could make the loans, especially since the charges after the increase were small relative to total returns, lenders would rather loan through banks than through brokers. This does not indicate what would happen in case the banks were prohibited from making the loans.

Certain possibilities come to mind. New institutions could be formed to handle this type of business -- they might be formed by brokers, by the banks themselves, or by any other group. Finance or trading companies or the security affiliates of banks might handle the business. Undoubtedly the activity of nonmember banks in this regard would be stimulated.

The test of such a prohibition would come in the next period of speculative activity and growing demand for brokers loans. If customary channels are restricted, rates would rise somewhat more rapidly than ordinarily. This might, on the one hand, serve to check the expansion of speculation and thus accomplish the purpose desired. On the other hand, the higher rates might encourage the "bootlegging" of funds of non-banking lenders through new channels. If this should occur to an appreciable extent, the tendency would be more difficult to control than if banks made the loans.

The previous proposal of voluntary cooperation between the Stock

Exchange and New York banks in revising their rules so as to confine Stock Exchange borrowing to banks and to limit banks in lending for others might be a more effective remedy than the proposed prohibition on banks. It would accomplish the purposes desired and might lead to the development of other markets for temporarily idle funds and secondary bank reserves, yet at the same time it would not under ordinary circumstances deprive corporations of a use for their funds or banks of the business of handling such funds, nor with Stock Exchange cooperation would the possibilities of "bootlegging" be as great.

April 11, 1931.

Hon. George L. Harrison,
Governor, Federal Reserve Bank,
New York, N. Y.

Dear Governor Harrison:

Please accept my thanks for your letter of April 10 and for your courtesy in sending me a copy of the memorandum prepared by your research department on the general question of brokers' loans, for the use of Senator Glass' Committee. I have read the memorandum with much interest.

Very truly yours,

Eugene Meyer

Governor.

~~7~~

File

May 1, 1931.

Mr. Lionel D. Edie,
60 East 42nd Street,
New York City.

Dear Sir:

In the absence of Governor Meyer, I acknowledge the receipt of your letter of April 30. The Governor is out of the city for two or three days, and I shall be glad to bring the letter to his attention upon his return.

Very truly yours,

(Signed) F. L. Fahy

Secretary to the Governor.

Sixty East Forty-Second Street
New York City

April
Thirtieth
1931

My dear Governor Meyer:

It would be appreciated if you would add the two following names to the list of those signing the Memorandum on Federal Reserve Policy sent to you by wire on April 28, 1931:-

Virgil Jordan,	The Business Week
L.C. Marshall,	Johns Hopkins

Very truly yours,

Lionel D. Edie

Mr. Eugene Meyer,
Governor Federal Reserve Board,
Washington, D. C.

CONFIRMATION OF TELEGRAM SENT

New York,
April 28, 1931.

Mr. Eugene Meyer,
Governor Federal Reserve Board,
Washington, D. C.

The undersigned desire to submit to the meeting of Governors the following memorandum on Federal Reserve policy QUOTE (Here insert attached memorandum) UNQUOTE

Professor J. F. Ebersole, of Harvard University, while not signing the memorandum, approves the expansion of open market purchases by Federal Reserve Banks now as we have enough liquidation in commodities and probably otherwise.

The following approve unconditionally:

E. E. Agger,	Rutgers University
Harry Gunnison Brown,	University of Missouri
John H. Cover,	University of Chicago
John R. Commons,	University of Wisconsin
Lionel D. Edie	
W. I. King	New York University
H. L. Reed	Cornell University
J. Harvey Rogers	Yale University
Walter E. Spahr	New York University
Charles L. Stewart	University of Illinois
G. F. Warren	Cornell University
John Parke Young	Occidental College

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THE GOVERNOR

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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NewYork NY Apr 28 256pm

Mr Eugene Meyer,
Governor Federal Reserve Board Washn

The Undersigned desire to submit to the meeting of Governors the following memorandum on Federal Reserve policy.
Quote (Pages 1,2,and 3) unquote.
Professor J F Ebersole, of Harvard University, while not signing the memorandum, approves the expansion of open market purchases by Federal Reserve Banks now as we have enough liquidation in commodities and probably otherwise.
The following approve unconditionally ;
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John R Commons, University of Wisconsin
Lionel D Edie W I King NewYork University
H L Reed Cornell University J Harvey Rogers Yale University
Walter E Spahr NewYork University
Charles L Stewart University of Illinois
G F Warren Cornell University. ~~Occidental College~~
John Parke Young Occidental College.
From time to time questions have been raised as to what contributions can be made by eceonomists to the fundamental problem of recovery from the present depression. The Undersigned economists find a meeting of their minds on certain fundamental phases of credit policy and hope that a statement of their views may be submitted

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for the attention of Federal Reserve Officials in a spirit, not of attempting to force their ideas on anyone, but rather of attempting to bring to the attention of the constituted authorities the convictions of a group of economists.

We believe that there are two problems of credit policy of fundamental importance: First, the emergency problem of utilizing credit policy as a means of furthering recovery from the current depression.

Second, the definition of an on-going credit policy over an extended period of time.

With regard to the first type of problem, we believe that a stage has been reached in the depression when a broad plan of credit expansion is urgently desirable. To the extent that gold inflow or other factors tending toward an increase of member bank reserve balances do not supply such expansion, we believe it should be supplied by open market purchases of Government Securities. Undoubtedly many of the member banks would feel that such an expansion was flooding them with excess funds at a time when they already feel over-burdened with idle money. However, we do not believe that the spontaneous attitude of the private bankers is justified from the broader economic standpoint. From this standpoint, we believe the fundamental consideration is that deliberate policies should be adopted to arrest the momentum of contraction and liquidation which has already become acute and which does not show signs of being

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terminated by other factors. We have given due attention to historical precedent and to economic theory in arriving at this opinion. It is impossible to anticipate all of the objections that will be raised to such a policy, but we have carefully considered the usual objections and believe that they should not stand in the way of the proposed policy at the present time.

Accordingly, we respectfully submit our opinion that a definite expansionary credit policy is desirable as a means of carrying through the next impulse to business recovery. We believe that this movement should logically start in the United States, where an abundance of gold exists, and where the money and capital markets exert a profound and, at times, dominating influence upon world-wide financial movements.

With regard to the second phase of the problem, namely the more permanent definition of credit policy, we urge as a criterion that the annual growth of credit volume should, in general, parallel the average long-term growth of production and trade. We believe that if this principle were to be adopted it would tend to avert over-expansions of credit, which accentuate trade booms, and to mitigate over-contractions of credit, which accentuate and prolong periods of depression and deflation. We are aware of the need in

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some degree of a frankly experimental attitude before all of the problems involved can be ironed out, but we believe that sufficient knowledge and experience are already available to warrant a more thorough testing of the principle proposed.

If a credit policy of the type described is to be effective in enabling the normal seasonal autumn pick-up in trade to carry through into a sustained recovery, we believe it is necessary that the policy be instituted in the very near future and applied cumulatively during future months. We hope and trust that the Federal Reserve authorities will welcome this statement of views in the spirit in which it is intended and that is may be helpful in the progress of thought in this country on the fundamental economic problems of the present trying period.

Lionel B Edie.

233p

U. S. GOVERNMENT PRINTING OFFICE: 1918 3—11901

MEMORANDUM ON FEDERAL RESERVE POLICY

From time to time questions have been raised as to what contributions can be made by economists to the fundamental problem of recovery from the present depression. The undersigned economists find a meeting of their minds on certain fundamental phases of credit policy and hope that a statement of their views may be submitted for the attention of Federal Reserve officials in a spirit, not of attempting to force their ideas on anyone, but rather of attempting to bring to the attention of the constituted authorities the convictions of ~~an economic group.~~ a group of economists.

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If a credit policy of the type described is to be effective in enabling the normal seasonal autumn pick-up in trade to carry through into a sustained recovery, we believe it is necessary that the policy be instituted in the very near future and applied cumulatively during future months. We hope and trust that the Federal Reserve authorities will welcome this statement of views in the spirit in which it is intended and that it may be helpful in the progress of thought in this country on the fundamental economic problems of the present trying period.

May 5, 1931.

Mr. Leslie Gould,
Financial Editor,
New York Evening Journal,
New York City.

Dear Mr. Gould:

I have your telegram of today with reference to Mr. Traylor's address before the International Chamber of Commerce, and I regret that I cannot see my way clear to comply with your request for an expression of my views on his remarks.

Since assuming my duties as Governor of the Federal Reserve Board I have received so many requests for statements, addresses and articles, that I have been compelled to refrain from complying with any of them, and I do not see how I can make any exceptions to this rule. I am sure you will understand and appreciate the situation.

Very truly yours,

(Signed) Eugene Meyer
Governor.

1931 MAY 5 PM 3 16

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POSTAL TELEGRAM

Treasury Department

Telegraph Office

JX NEWYORK NY 220P MAY 5 1931

EUGENE MEYER :

GOVERNOR FEDERAL RESERVE BOARD=

MELVIN A TRAYLOR PRESIDENT FIRST NATIONAL BANK OF CHICAGO SPEAKING IN WASHINGTON TODAY BEFORE INTERNATIONAL CHAMBER OF COMMERCE URGED ELIMINATION OF FLOOR TRADING ON STOCK EXCHANGE MARGIN BUYING OF STOCKS EXCEPT FOR ACCOUNTS OF TEN THOUSAND DOLLARS OR MORE AND DAILY CALL MONEY RATES AS STEPS TO SET WORLD BACK ON ITS FEET STOP HE CHARACTERIZED FLOOR TRADING AS PLAIN CRAP SHOOTING STOP LAYS DEPRESSION TO BUSINESS FAILURE TO LOOK AHEAD STOP WOULD APPRECIATE TELEGRAM ON YOUR VIEWS=

LESLIE GOULD FINANCIAL

EDITOR NEWYORK EVENING JOURNAL.

X-6883

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release at 2:30 p.m. May 7, 1931.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of $1\frac{1}{2}$ per cent on all classes of paper of all maturities, effective May 8, 1931.

August 10, 1931.

Mr. Arthur Hale,
1119 Barr Bldg.,
Washington, D. C.

Dear Mr. Hale:

In the absence of Governor Meyer, I acknowledge receipt of your letter of August 7 with enclosed copy of an article printed in the Chicago Tribune by Mr. Leathem D. Smith, President of the Door County Bank, Sturgeon Bay, Wisconsin. The Governor is out of the city for a day or so, and I shall take pleasure in bringing the correspondence to his attention upon his return.

Very truly yours,

(Signed) F. L. Fahy
Secretary to the Governor

ARTHUR HALE
1119 BARR BUILDING
910 SEVENTEENTH STREET
WASHINGTON, D. C.

August 7, 1931

Mr. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Meyer:

The other day I told you that a friend of mine, the President of a small bank in the west, was anxious to have a talk with you, and you were kind enough to say that the next time he was in Washington I might bring him to see you. I was thinking of Mr. Leathem D. Smith, President of the Door County Bank, Sturgeon Bay, Wisconsin.

Mr. Smith writes me that he will not be here for some time and asked me to show you the enclosed which he recently printed in the Chicago Tribune.

I know absolutely nothing about credit matters and was under the impression that the Federal Reserve System had been of great assistance in improving our credits generally.

Yours very truly,

Arthur Hale

Arthur Hale

H-V
Enc.

C R E D I T

Chicago, July 15. - We note your recent editorials on the easing of money or credits for long term investment. There is not a Chinaman's chance of any business revival until such easing of credits becomes an established fact.

Industry has maintained wage levels to keep up the purchasing power of the consumer, but the country is being slowly and surely starved of the credit and money necessary for these consumers to translate this purchasing power into the buying of products of production.

Formerly, in times of business depression, credits or money became easy through lack of demand, and the stimulated use of this money revived purchasing and restored business. We now have the federal reserve system as a supposed safeguard to our banking systems, but the pressure of the federal reserve bank on its member banks to keep themselves liquid and to call in their loans has upset the normal law of supply and demand for money and resulted in the starving of small industries, the forced liquidation of collateral and the draining of the outlying districts of the country of the money which flows into the large central banks, which, in turn are in danger of drowning in their own liquidity through loss of earnings on their cash surpluses.

An emergency cushion fund put up by the government behind the federal reserve with instructions from the federal reserve to its member banks to ease credits with the assurance that in case of emergency the federal reserve would take a broader range of paper for rediscount from these banks than what is required by normal limitations with encouragement of preferred loans; first, to employers of labor, for it is only by putting this idle money to work that employment can be given; second, by loans to enable the installment plan purchases of products of our factories which will result indirectly in the employment of labor; third, by loans on real estate, bonds, and stock collateral, which will tend to restore the value of these collaterals and create a greater market for them, would help the situation.

The country at large is restive under present inactivity and eager to buy at present bargain prices and build, but the almost complete breakdown of the banking and credit systems under the pressure from the top will nullify the effects of public works' stimulants and foreign loans.

Normally our home markets consume 85 per cent of our products. Why worry about the foreign 15 per cent and destroy the 85 per cent market at home for lack of credit?

Leathem D. Smith.

August 12, 1931

Mr. H. T. Hallowell, President
Standard Pressed Steel Company
Jenkintown, Pennsylvania

Sir:

Your letter of August fifth is hereby acknowledged, and I wish to assure you that the Federal reserve system is giving careful consideration to the matters to which you refer.

Very truly yours,

(Signed) Eugene Meyer

Governor.

EAG:DD

H. T. HALLOWELL, PRESIDENT HARALD F. GADE, VICE PREST & TREAS. J. F. ROBERTS, SECRETARY

STANDARD PRESSED STEEL CO.

MANUFACTURERS OF
"UNBRAKO" HOLLOW SET & SOCKET HEAD CAP SCREWS
"HALLOWELL" STEEL SHOP EQUIPMENT
POWER TRANSMISSION APPLIANCES

BRANCHES: BOSTON, CHICAGO, DETROIT

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CABLE ADDRESS "STAMPING" PHILADELPHIA
LIEBER'S FIVE LETTER CODE

JENKINTOWN, PA.

August 5, 1931

Federal Reserve Bank,
Washington, D. C.

ATTENTION: THE GOVERNOR

Gentlemen:

The writer does not claim to be a Financier, but there lurks with him a certain amount of, shall I call it foresight, or common sense, which tells him that his fears will not be unfounded unless the Federal Reserve System and those responsible for loaning money abroad change their attitude.

The bulk of money that has been loaned abroad to the larger countries has shrunk to serious proportions and there is a grave doubt among a lot of we American citizens if the principal will ever be paid back in a goodly proportion to those loans. Frankly, it is my honest opinion that if we keep on loaning money with doubtful merit this good old U.S.A. will waken up and find itself in the same predicament as our unfortunate neighbors abroad.

Begging you to give consideration to this matter, I am

Yours very truly,

H. T. Hallowell

HTH/y

RECEIVED
AUG 7 1931
OFFICE OF
THE GOVERNOR

9c 8
Mech.

August 14, 1931

Dear Governor

You will have to blame yourself as having been the inspiration for this letter to you. You will remember our brief chat immediately following your remarkably effective speech here in Detroit.

At the end of June, I spent two or three days in Washington, had a considerable conversation with the President and later re-established contacts with various governmental and civilian agencies through which the Council of National Defense functioned during the Wilson administration. I purposely used the term "Wilson Administration" to emphasize the fact that the Council of National Defense was created by Congress in 1916 as a peace time body having for its purpose service in any national emergency and that this organization was continued during the peace time years of 1919-20. With the advent of the Harding administration, the Council was allowed to lapse. It was never in any official way discontinued. The 1916 law creating it is still on the Statute books as has recently been pointed out by the War Department in the hearings before the War Policies Commission before which many of us have appeared within the last few months, and over which Secretary of War Hurley presided as Chairman.

In my testimony before this Commission, I urged the rehabilitation of the Council, suggesting, as I remember it, that at the next session of Congress the name be changed to "Council of National Security", thereby eliminating the inference of war, and that the Act be further amended in any detailed manner suggested by our later experience.

Following my above mentioned call upon the President, I wrote him two letters, one dated July second, the other July tenth, copies of both of which I herewith attach, together with his reply. You will, of course, treat the President's reply as strictly confidential. I think you will agree with me, however, that his attitude is peculiar in that he assumes that a serious and countrywide state of alarm does not already exist, and further makes it clear in his second paragraph that he does not admit or perhaps even recognize the necessity for an orderly, definite and authoritative agency for the co-ordination of all of the elements and activities which must be brought into harmonious accord before we can hope to improve the public psychology and get the American people pulling in the same harness for the rebuilding of confidence and prosperity.

It is only natural that the United States Chamber of Commerce, the International Chamber, the National Industrial Conference Board and dozens of other dignified business organizations are desirous of establishing close relationships with the White House. The impossibility of subordinating these national bodies to any super agency not bearing the stamp of governmental or Congressional authority is self-evident.

The President cannot meet the existing emergency through any new agency to be created by the next Congress. Why not, therefore, as I said to you when here in Detroit, utilize the tool which Congress has already provided for just such emergency purposes.

On page 38 of the copy of my testimony before one of the Committees of Congress in 1926, you will find the text of the Act creating the Council of National Defense and its Advisory Commission of seven business men. You will also note that among its duties is listed, with well studied phraseology, "The creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation". This broad provision was inserted to extend the Council's sphere of usefulness to meet any unusual National need. You know, from your own experience, that the entire country was organized for effective work under this Act and that the personnel built between 1916 and 1920 is still largely on the job throughout the country.

Walter Gifford, the Director of the Council is now President of the American Telephone & Telegraph. No better man could be asked for to again head the Council's organization. The "Dollar a year men" are again ready for service. The entire American press can be immediately and intelligently organized to support this movement. Why not make use of this agency which seems to have been fashioned by Congress for just that service of which we are now in such dire need.

With my best personal regards to you,

Sincerely yours,

(C O P Y)

Governor's Office

September 4, 1931

Mr. Howard E. Coffin,
First National Bank Building,
Detroit, Michigan.

Dear Mr. Coffin:

I apologize most earnestly for my delay in answering your exceedingly interesting and suggestive letter of August 14th. I have been giving it a great deal of consideration, and the further I get in the crystalization of plans for handling the unemployment situation, the nearer I get to the set-up of the Council of National Defense. I am a thousand times obliged to you for putting the information in my hands.

It seems clear now that Hoover will do nothing about an extra session or Federal appropriations for relief. I suspect, however, that the matter will be taken out of his hands after Congress meets.

With all good wishes and the highest appreciation

Sincerely yours,

HOWARD E. COFFIN
SEA ISLAND BEACH
GEORGIA

CHAIRMAN OF THE BOARD
SEA ISLAND COMPANY

July 2, 1931

COPY

Honorable Herbert C. Hoover,
White House,
Washington, D. C.

Dear Mr. President:

While I have not hesitated to express to you my disagreement with certain administration policies, you will, I know, absolve me of any interests counter to those of our national welfare or to successful achievement upon the part of yourself. You will, therefore, understand the desire toward helpful suggestion with which this letter is addressed to you.

I came to Washington last week that I might in some measure clarify at first hand my own impressions as to the present trend of national affairs. Following my call upon you with Mr. Barrett, I visited the American Federation of Labor, the National and International Chambers of Commerce, the National Industrial Conference Board and similar organizations with which I have formerly maintained relations. I have also had conversations with various individuals having a specialized knowledge of the country's affairs. I am greatly impressed with the similarity of our present situation with that of 1916-17. Because of the greatly disturbed and profoundly confused state of the public mind, I feel that the present is even more fraught with potential disaster than was that emergency. We are now facing dangers more subtle, more complicated and far more difficult of successful solution than were those of this earlier period, nor have we now present those advantages of patriotic enthusiasm in the accomplishment of a definite objective or of the material well-being which so greatly aided us in this other emergency period. We have passed through many discouraging months of economic puzzlement, financial loss and shrinking values and now face a year of business uncertainty because of the inevitable renegotiation during a bitterly partisan political period of the international debt situation sure to profoundly affect both our private and national affairs.

From the experience of my intimate association with the government during the emergency period of our entry in the War, I am impressed with the conviction that we must again coordinate our government agencies and so gear them with our civil mechanisms that our entire national machine may be brought into a practical working accord.

I offer no "cure-all" for the ills which so sorely oppress us. But I do remind you that you have ready under your hand an agency created by Congress for the organization of the Nation's spiritual and material resources in time of need, already well and favorably known for successful achievement in guiding public thought and effort in every community of the country during a period of stress, free from the dangers of partisan political attack; a certain source of relief from the constant flood of remedial suggestions, and a medium through which may be brought to you in orderly condensation the best thought of our people concerning the problems confronting us.

I refer to the Council of National Defense, charged by law with the duties of "investigations and recommendations to the President" upon matters and policies for the national security and welfare. Through the seven "specially qualified" men of the Advisory Commission of the Council, there may be set up under this Statute such subordinate bodies as may be needed in aid of or to give force and influence to any recommended policies of which you, as our President, may at any time approve.

I feel that the gravity of the existing emergency with its political and economic potentialities for disaster should be adequately recognized NOW and that an orderly, effective and confidence inspiring, non-partisan agency for the immediate direction of the Nation's best thought and organization of effort for the promotion of our common good is vitally essential. The impending political events, including national conventions and elections together with the renegotiation of the international debts settlement during this period of political strife will certainly tend toward a continuance of business uncertainty and provide opportunity for many lines of attack upon the part of anti-administration forces.

It is with all these facts and probabilities in mind that I suggest to you the present utilization of this tried and effective method which Congress in its wisdom provided for service in connection with the National welfare, nor do I believe that in the re-establishment of the Council, the Advisory Commission and such subordinate or voluntary organization as might be considered effective, you could properly be accused of the creation of just another "Commission."

Sincerely yours,

(Signed) Howard Coffin.

HOWARD E. COFFIN
SEA ISLAND BEACH
GEORGIA

CHAIRMAN OF THE BOARD
SEA ISLAND COMPANY

July 3, 1931

Honorable Herbert C. Hoover,
White House,
Washington, D. C.

COPY

Dear Mr. President:

Today, July 3rd, the papers announce the successful consummation of the moratorium negotiations.

This may be termed the corner-stone of economic recovery. An upward surge of the stock market for the next week or two will give tangible demonstration as to the reaction of the public mind to this definitely constructive measure which you have so wisely and so opportunely initiated. But, if this renewal of hope and confidence is not given continuing encouragement through the promulgation by you of an aggressively adequate program for insuring the early completion of our structure of recovery in both its spiritual and material aspect, then we may quite well expect as a result of July's dismal business statements, decreasing car loadings and increasing unemployment, an even more serious crisis in our domestic affairs.

Again let me urge the pressing need for comprehensive action - including the utilization of that legally constituted mechanism already provided for the meeting of national emergencies - for coordination of the agencies of government with civil affairs - for inspiring that public sympathy and confidence which will strengthen your hand - and which can be made to so relieve and serve you in this burdensome time.

The measure creating the Council of National Defense (name should be amended to Council of National Security) was placed by Congress upon the Statutes in time of peace (1916), was found sufficiently flexible to permit of emergency war service (1917-18), was reaffirmed as a peace time body in 1920, and was expected by Congress to carry on continuously in peace time service relating to the national security.

This note is intended to supplement my letter of July 2nd.

Sincerely yours,

(Signed) Howard Coffin.

THE WHITE HOUSE

Washington

July 10, 1931

COPY

Mr. Howard E. Coffin,
First National Bank Bldg.,
Detroit, Mich.

My dear Coffin:

I have your kind letter of July 7th.

I have the feeling that if we were to launch an organization of the type you mention we would create a state of alarm that would undermine the growing confidence we have so carefully built up.

We have available exactly the same men you mention and they are in daily conference in Washington on every phase of the situation. We have, in fact, some fifteen different programs contributing to amelioration of the depression. They are set up in various groups and have daily attention and cooperation throughout the country. I would like to have more programs of the same character. It seems to me that is the essence of the question - what further can be legitimately done by the Government to expedite recovery?

I do hope that you, with your fine inventive mind, will work up some constructive suggestion and submit it to me.

Yours faithfully,

(Signed) Herbert Hoover.

R E S O L U T I O N
By
AMERICAN LEGION

DETROIT

WHEREAS, a state of unrest, indecision and dissatisfaction, resulting in business depression and the destruction of values, has become prevalent among the people of the United States and has assumed such proportions as to constitute a National emergency of the utmost gravity; and

WHEREAS, the 64th Congress of the United States, by its enactment approved August 29, 1916, established a Council of National Defence and Advisory Commission for the express purpose, among others, of the "creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation"; and

WHEREAS, this measure functioned with great success during the former period of National stress existing from 1916 to 1920, with an organization which covered the entire country; and

WHEREAS, it was designed to meet the problems of Peace as well as those of war; and

WHEREAS, we believe that the principal causes of the present situation are in general such that they cannot be promptly and efficiently met by existing political methods;

NOW, THEREFORE, BE IT RESOLVED, that the American Legion in National Convention assembled, hereby respectfully requests the President of the United States to make use of this existing instrumentality, which has already proved its efficiency by actual operation, and to direct its attention to the consideration of the fundamental causes responsible for the existence of the present emergency, and of the means to be adopted for their amelioration, both for the present and the future.

September 16, 1931

Mr. Eric D. Hirsch
Allenberg Cotton Company
Memphis, Tennessee

Dear Mr. Hirsch:

This is the first opportunity I have had to answer your letter of August thirty-first, in which you propose that currency be issued on the basis of seven-cent cotton.

Available information indicates that there is no shortage of currency in this country, nor any shortage of eligible paper that can be converted into currency by member banks at any time. In recent years, and particularly since the establishment of the Federal reserve system, the problem of adequate financing has shifted entirely from currency to bank credit. During a period like the present, the Federal reserve system stands ready to make available credit to member banks on all classes of eligible paper, including paper based on cotton in storage or in the process of being marketed at rates that vary from 1 per cent on acceptances to from 1 1/2 to 3 1/2 per cent on discounts.

Very truly yours,

(Signed) Eugene Meyer

Governor.

E.E.P.

EAG DD

[redacted]

MEMBERS: { NEW ORLEANS COTTON EXCHANGE
MEMPHIS COTTON EXCHANGE }

ERIC D. HIRSCH

ALLENBERG COTTON COMPANY

MEMPHIS, TENN.
August 31st, 1931.

Mr. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

You are probably familiar with Dr. Irving Fisher's "weighted dollar," which we may come to eventually, though dependent on a beaurocratic board of economists.

It occurred to me that a step in this direction would be the amendment of our banking laws to permit issuance of currency based on 7¢ cotton. I, for one, feel that 7¢ cotton is a sounder basis for money than Peter's promise to pay Paul in 90 days, and when gold is finally replaced by a rarer metal as were silver, iron, etc., our currency will be more easily adjusted if based on necessary commodities.

The great advantages are twofold:

1. Tends towards inflation in time of depression, and makes for deflation in times of boom, since high value of cotton will cause its withdrawal into trade channels from money channels.

2. A brand new use for cotton. Picture the demand for gold if in addition to its use as money it were a universal necessity like cotton.

If you think a slight inflation along these lines is possible, I will be happy to develop the idea.

Yours very truly,

Eric D. Hirsch

EDH:H

RECEIVED
SEP 2 1931
OFFICE OF
GOVERNOR

September 22, 1931.

Mr. B. R. Gordon,
48 Wall Street,
New York, N. Y.

Dear Mr. Gordon:

Upon my return to the office after a few days absence, your letter of September 9 was brought to my attention, but this is the first opportunity I have had to reply to it. I have noted your comments with interest, but, of course, the matter to which you refer is one that falls within the province of the Federal Farm Board or the Department of Agriculture, or both, rather than the Federal Reserve Board.

Very truly yours,

(Signed) Eugene Meyer

Governor

September 10, 1931.

Mr. B. R. Gordon,
48 Wall Street,
New York City.

Dear Mr. Gordon:

In the absence of Governor Meyer, I acknowledge the receipt of your letter of September 9. The Governor is out of the city for a few days and I shall be glad to bring the letter to his attention upon his return.

Very truly yours,

(Signed) F. L. Fahy

Secretary to the Governor.

48 Wall Street
New York

September 9, 1931

Hon. Eugene Meyer,
Governor of Federal Reserve Board,
Washington, D. C.

Dear Mr. Meyer:

There has been much discussion in the press regarding the cotton situation. Because cotton is not a world crop in the sense wheat is a world crop, and the United States produces a very large percentage of the cotton produced in the world, it would seem to the writer that Government aid with respect to this situation could be applied with practical results. I am not a student of cotton statistics and realize that what I have to say may not be sufficiently practical. However, the following layman's view appeals to me as being more sensible than a great many plans which apparently have been entertained seriously.

In this morning's "Times", I note that the indicated production of the United States for this year will approximate 15,685,000 bales. For the sake of round figures and easy arithmetic, I shall call it 15,000,000 bales for the purpose of this letter. It has been proposed in the past that one-third of the current crop be abandoned and plowed under, which to my mind would be very wasteful. On the contrary, I should suggest that the Government buy one-third of the current crop, or 5,000,000 bales at the rate of six cents a pound, which price as I understand it is well below the cost of production. The amount involved in this transaction would be $150,000,000.

In consideration of the Government buying this cotton, the planters should agree to plant one-third less cotton acreage during the coming season and either let the land lie fallow or utilize it in the production of something else. (How this would work out as a practical matter, I do not know, but it would be as simple to negotiate as having them plow under one-third of the crop as has been suggested from time to time.) I should further propose that the Government in turn give the cotton planters an option to purchase the 5,000,000 bales of cotton which the Government will have on hand at a price which will allow the Government a profit of one cent a pound net after all charges, including storage, transportation, interest charges at 5%, etc; that is to say, if the crop of one planter for the current year is 600 bales, he should be allowed to plant but two-thirds of this season's acreage next year and receive from the Government an option on 200 bales. In order to prevent the planters from falling down on the job entirely and not planting any cotton, thereby making cotton very scarce and their options extremely valuable, I should suggest a further provision designed to insure the planting of sufficient cotton to take care of the normal demand. Let us assume that the option price of the cotton to the planter is eight cents a pound on the basis described above. It could be arranged that if at a given date next season the price of spot cotton exceeds twelve cents a pound (or some other appropriate figure), the option price to the planter will be stepped up by the amount of such increase or by a certain percentage of it. In any event, something should be done to limit, or limit in a measure, the profit which the planter could derive under this option.

Very truly yours,

B R Gordon

B.R.Gordon:T

September 29, 1931.

Mr. H. S. Hicks,
Rockford National Bank Building,
Rockford, Ill.

Dear Mr. Hicks:

Your letter of September 21 to the President, enclosing a communication to you from Mr. Moses Allen Warren, of New York, has been referred to the Federal Reserve Board.

I have noted Mr. Warren's comments in his letter to you. So far as I am aware, no commission has been appointed by any of the Government Departments to study the matter to which he refers. He probably has in mind the sub-committee of the Committee on Banking and Currency of the Senate, of which Senator Glass is Chairman, and which has been engaged for some time in making a study of the banking situation.

Very truly yours,

(Signed) Eugene Meyer

Governor

THE WHITE HOUSE
WASHINGTON

September 24, 1931.

My dear Mr. Meyer:

By direction of the President I am sending herewith a letter from Mr. H. S. Hicks of Rockford in which he encloses one from Mr. Moses A. Warren.

Sincerely yours,

Lawrence Richey

LAWRENCE RICHEY
Secretary to the President.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

Enclosure

RECEIVED
SEP 24 1931
OFFICE OF
THE GOVERNOR

H. S. HICKS
ATTORNEY-AT-LAW
ROCKFORD NATIONAL BANK BUILDING
ROCKFORD, ILLINOIS

THE WHITE HOUSE
SEP 23 1931

September
21
1 9 3 1

President Herbert C. Hoover,
The White House,
Washington, D. C.

My dear Mr. President:

A few days ago Mr. Moses Allen Warren, an old friend of mine whose former home was in Rockford, called at my office and we discussed for a few minutes the subject which is outlined in his letter to me, dated September 19th, which I am enclosing herewith.

I recall that Mr. Warren stated that some commission has been created by some department of the Federal Government to study the rediscount problem.

I am sending his letter to you with the suggestion that Mr. Warren would because of his study and knowledge of the subject probably be of service to such a commission.

Very sincerely yours,

H S Hicks

HSH:AD

LAW OFFICES OF

MOSES ALLEN WARREN

170 BROADWAY

TELEPHONES 1138 / 1139 } HITCHCOCK 4-3561 / 3562

CABLE ADDRESS: "WARLAW"
"WESTERN UNION CODE" USED

NEW YORK

September 19, 1931.

Hon. Herbert S. Hicks,
Rockford National Bank Bldg.,
Cor. State & Main Sts.,
Rockford, Ill.

Dear Herbert:

I was very sorry not to have had a further interview with you in Rockford before you left for Chicago. I wanted to tell you that the reactions from the article which appeared in the local paper there relative to a possible re-discount bank system were very favorable, both from the older bankers and real estate men.

As you know I have given considerable study to this question and believe there is a proper way to relieve the present situation as its exists with regard to the so-called "frozen" loans on real estate now held by the banks.

The basic fact, it seems to me, is that perhaps the best security that can be obtained is a promise to pay secured by a first mortgage upon land. Under the circumstances, however, it is dificult to sell such a loan, as it lacks the elements of marketability. On the contrary a mere promise to pay by a merchant or corporation backed by less security can be readily discounted under our present banking system.

This condition as it exists today is not conducive to progress along sound fundamental lines.

As far back as 1846 a condition arose in Europe whereby credit was restricted upon real estate, but it was greatly ameliorated by a method which was developed there at approximately that time. With the steady growth of this country and the ever increasing values of real estate perhaps we have not had the time or inclination to carefully investigate the fundamental principles, and as a result have a serious condition in both the Urban and Rural banks because of their loans upon real estate.

ROCKFORD MORNING STAR

PART 2

ROCKFORD, ILLINOIS, SUNDAY, SEPT. 13, 1931

RE-DISCOUNT BANK SYSTEM IS FORECAST

New York Expert On Visit In Rockford Outlines Plan

POINTS NEED

Consideration by the next session of congress of a proposed system of re-discount banks to solve the problem of frozen loans on real estate which has led to many bank failures was predicted here yesterday by Attorney Moses Allen Warren, prominent New York attorney, who is visiting his mother, Mrs. Julia P. Warren, 711 North Main street.

Mr. Warren, who has made an extensive survey of the mortgage field, is considered one of the foremost experts in this field of law in the New York metropolitan area. He is a former resident of Rockford. In an interview with the Morning Star he outlined a proposal for establishing a central re-discount bank with branches in various districts to create stability in the mortgage market and stabilize urban and rural real estate values.

"It is undoubtedly true," Mr. Warren said, "that many residents in this vicinity have been much interested recently in the mortgage situation and its results in relation to the banking situation. Mortgages are, of course, considered one of the best investments that can be made when the loan is secured by adequate value in the land, but it has one principal detriment in that it has no marketability, and the corporation or individual lending the money must wait until maturity before he receives repayment. The question, therefore, of the marketability of a mortgage is of primary importance.

Given Much Study

"Recently much study has been given to this question in New York with the result that the various real estate interests have appointed committees for research thereon. I have taken quite an interest in this situation and believe that one of the suggestions recently made will do a great deal toward clarifying the situation. I refer to the proposal to create a re-discount bank, not exactly similar but perhaps along some of the lines of the land credit banks of Europe. Such an institution would go a great way toward making mortgages upon land, either urban or farm mortgages, much more liquid and would relieve the pressure which now exists on various rural banks by reason of their frozen loans upon real estate.

"The creation of the joint stock land banks went a certain distance toward the end sought but has not gone far enough to fully cure the situation. A step further should be taken. A central re-discount bank having branches in various districts, properly safeguarded as to its powers and having sufficient capital in each district to properly take care of its demands would, it seems to me, both create stability in the mortgage market and perhaps stabilize the value of real estate in both urban and rural communities.

Appraisement Important

"Of course one of the vexatious problems always has been the question of a proper appraisement. This is fundamental and appraisers should be so chosen that they would be removed from political or other prejudicial influences, if possible. I understand that much study has been given to this problem in Boston and that they have recommended a new plan that may work out toward a partial solution of some of the difficulties.

"I have found a great deal of interest in studying the various plans in existence in Europe in the several countries which have the land credit banks, and although they could not be exactly followed in their entirety, they have many suggestions which are valuable. After all, ours is a new country and land values have increased steadily during the rapid growth and development of new localities, so that there has not been perhaps the need to study the fundamentals as carefully as in the older countries.

"In many of our cities the situation with regard to land values has been dominated by large financial institutions who have controlled [illegible] market for mortgages on their [illegible] that the system which the [illegible] real estate so [illegible] has been one which has grown up [illegible] those institutions has benefited [illegible] rather than loo[illegible]king toward a more far-sighted policy."

Mrs. John Bendix Is Visitor Here For Church Meet

Smiling and radiant, Mrs. John Bendix, mother of Vincent Bendix, multi-millionaire, president of the Bendix corporation, and widow of the Rev. John Bendix, former superintendent of the Galesburg district to which the Bethany M. E. church belongs, is a visitor in Rockford at the convention sessions here of the Central Northwest conference of Swedish M. E. churches.

To Mrs. Bendix, her visit here is in the nature of a homecoming as it was in Rockford that she lived for a while as a young girl and attended the Rockford high school. Among the pastors meeting here and their wives, she has [illegible] friends as her husband was one of the best known Methodist clergymen of his time. He was active in church work from about 1870 until his death in 1922. During that tim[illegible] he was superintendent of th[illegible] district for six years and [illegible] Bethany church he[illegible] [illegible]es.

[illegible] be a [illegible]

Where Hurricane Killed Hundreds

SEES INCR[illegible]
IN N[illegible]

LAW OFFICES OF

MOSES ALLEN WARREN

170 BROADWAY

TELEPHONES {1138 1139} HITCHCOCK 4-3661 3662

CABLE ADDRESS: "WARLAW"
"WESTERN UNION CODE" USED

NEW YORK

H. S. H. 9/19/31

The various Federal Farm Loan Acts and the Agricultural Credits Act have gone a certain distance, but have not solved the problem and the Joint Stock Land banks have been a disappointment in this respect; and I believe that there is a proper remedy as I have indicated to you.

As you know my interest and those of the family by reason of investments in mortgages in the various western states, as well as my interests here, have made it necessary for me to look carefully into the situation; and I have no special "axe to grind" and am only attempting to find a solution which will be beneficial alike to bankers and owners of Urban and Rural real estate.

Anything you can do to aid with your large experience, both in the Legislature of Illinois and with your wide acquaintance will be greatly appreciated, and I hope you will have some time to devote to it.

With kindest personal regards, I am,

Very sincerely yours,

M. Allen Warren

MAW.FW

October 12, 1931.

Mr. Ivan O. Hasbrouck, President,
Iowa Bankers Association,
Des Moines, Iowa

Dear Mr. Hasbrouck:

On account of absence from the city, this is the first opportunity I have had to thank you for your telegram of October 8 regarding the action taken by the Iowa Bankers Association with respect to the program outlined by the President in his statement of October 7.

The telegram reached me just as I was about to leave the city, and I immediately forwarded a copy of it to Mr. M. N. Buckner, President of the New York Clearing House Association, who is Chairman of the organization committee that has been handling all matters relating to the formation and operation of the National Credit Corporation. It is my understanding that advice regarding the plan of operation of the Corporation was forwarded to all Clearing House Associations a few days ago.

Very truly yours,

(Signed) Eugene Meyer

Governor

1931 OCT 8 PM 3 34

TELEGRAM

Treasury Department

Telegraph Office

WAA126 157 4 EXTRA=

DESMOINES IOWA OCT 8 1931 201P

HON EUGENE MEYER=

THIS IS TO RESPECTFULLY ADVISE YOU THAT THE COUNCIL OF ADMINISTRATION AND OTHER MEMBER BANKERS OF THIS ASSOCIATION HELD A MEETING AT DESMOINES YESTERDAY APPROVED OF PRESIDENT HOOVERS PROGRAM AS ANNOUNCED IN THE PRESS YESTERDAY AND APPOINTED A COMMITTEE TO REPRESENT THE BANKERS OF IOWA THROUGH THEIR STATE ASSOCIATION TO WORK WITH ANY FEDERAL RESERVE COMMITTEE OR OTHER NATIONAL COMMITTEE THAT MAY BE APPOINTED TO CARRY OUT PRESIDENT HOOVERS FINANCIAL PROGRAM AS ANNOUNCED YESTERDAY MR B F KAUFMAN PRESIDENT OF THE BANKERS TRUST COMPANY DESMOINES IS CHAIRMAN OF OUR STATE COMMITTEE MR KAUFFMANS COMMITTEE MET LAST EVENING AND ORGANIZED AND IS READY TO SERVE THE GOVERNMENT INCLUDING YOUR BOARD AND THE COMPTROLLER OF THE CURRENCY TO WHOM A WIRE SUCH AS THIS IS ALSO BEING SENT WHENEVER YOUR BOARD AND THE COMPTROLLER MAY DESIRE TO CALL UPON THE IOWA COMMITTEE WILL YOU KINDLY WIRE US COLLECT HOW OUR COMMITTEE CAN SERVE RESPECTFULLY SUBMITTED=

IOWA BANKERS ASSOCIATION

IVAN O HASBROUCK PRESIDENT

FRANK WARNER SECRETARY.

October 12, 1931.

Mr. Donald G. Hamilton,
1212 Forbes Street,
Pittsburgh, Pa.

Dear Mr. Hamilton:

This is the first opportunity I have had to acknowledge receipt of your telegram of October ninth, in which you indicate your readiness to be of service in connection with the work of the National Credit Corporation. I appreciate your courtesy in wiring me, but as you have perhaps noted in the press, all matters relating to the formation and organization of the National Credit Corporation have been in the hands of the Organization Committee, of which Mr. M. N. Buckner, President of the New York Clearing House Association, is Chairman.

Very truly yours,

(Signed) Eugene Meyer

Governor

1931 OCT 9 AM 10 39

W20 46 6 EXTRA DL=

Treasury Department

POSTAL TELEGRAM

Telegraph Office

ON PITTSBURGH PENN OCT 9 1931 922A

[illegible]GENE MEYER JR=

CHAIRMAN FEDERAL RESERVE BOARD=

IF MY EXPERIENCE AS SECRETARY OF WAR FINANCE CORPORATION IN OHIO AND WESTVIRGINIA CAN BE OF ANY ASSISTANCE IN ORGANIZATION OF LOCAL LOAN COMMITTEE OF NATIONAL CREDIT CORPORATION IN THE TRISTATE DISTRICT I SHALL BE HAPPY TO VOLUNTEER MY SERVICE=

DONALD G HAMILTON

1212 FORBES STREET.

RECEIVED
OCT 9 1931
OFFICE OF
THE GOVERNOR

October 20, 1931.

Mr. Ivan O. Hasbrouck, President,
Iowa Bankers Association,
Des Moines, Ia.

Dear Mr. Hasbrouck:

Please accept my thanks for your letter of October fifteenth.

I have noted with interest what you say concerning the situation in Iowa, and the necessity of prompt action on the part of the National Credit Corporation. It is no easy task, as I know you realize, to create and set up the necessary machinery for such an undertaking, but I am sure there is every desire on the part of the directors and officers of the Corporation to expedite its operations as much as possible.

As you have noted in the press, the directors had their first meeting on Saturday, and at that meeting Mr. George M. Reynolds, Chairman of the Executive Committee of the Continental Illinois Bank and Trust Company, who is the director of the Corporation from the Chicago district, was elected Chairman of the Board. Mr. Reynolds, of course, is familiar with the conditions in Iowa, and if it has not already done so, it seems to me it would be desirable for the State Committee appointed by the Iowa Bankers Association to get in touch with him at the first opportunity.

I have also read with interest the statements in the postscript of your letter, and your suggestion that some additional statutory machinery should be provided by Congress to deal with the situation.

Very truly yours,

(Signed) Eugene Meyer

Governor

IOWA BANKERS ASSOCIATION

I. O. HASBROUCK, PRESIDENT
JEFFERSON

C. J. WEISER, VICE PRESIDENT
DECORAH

IOWA BANKERS ASSOCIATION
BIA
FOUNDED 1887
MEMBERSHIP APPROXIMATELY 1400 IOWA BANKS

JOS. J. BRUS, TREASURER
DAVENPORT

FRANK WARNER, SECRETARY
DES MOINES

DES MOINES

OFFICE OF THE SECRETARY
430 LIBERTY BUILDING
PHONE 3-0179

October 15, 1931

Hon. Eugene Meyer,
Governor Federal Reserve Board,
Washington, D. C.

Re: National Credit Corporation.

My dear Mr. Meyer:

This is to acknowledge your kind letter of October 12th, 1921, in answer to our wire of October 8th, 1931. We are deeply obliged to you for transferring the subject matter of our wire to Mr. M. Buckner, Chairman of the Organization Committee in New York.

Being aware of the excellent work that you did for the Country, particularly the great Agricultural Middlewest, when you administered the affairs of the War Finance Corporation, and being aware of your broad and deep insight into the financial conditions in an Agricultural State like Iowa, and having every confidence that you will apply that insight and appreciation of our problems in a vigorous way and translate it into some positive and specific manner to hasten the anticipated proposed relief measures that the National Credit Corporation is seemingly seeking to give to the Country, we address this letter to you with the earnest and fervid hope that you will use all the influence at your command to urge those in charge of the National Credit Corporation to get it into operation at the earliest possible moment. In this personal and more or less confidential letter to you we want to say that there are localities in this State where the Banking situation is in desperate circumstances. We have innumerable millions of dollars worth of good mortgages on farm land and city and town property, but no place where they may be converted into cash with which to pay depositors who may begin any time or continue as the case may be to ask for their deposits if those depositors become further alarmed. If the Iowa Bankers were assured of some place where they could convert these good loans into cash and thus know that they can pay their depositors if they have to, and if the depositors on the other hand know that the Banks have access to some reservoir of money, we believe that confidence will tend to be restored both from the side of the Banker and from the side of the depositor. We respectfully say that the publicity covering the Nation following and including the announcement of President Hoover's financial program has given infinite hope and expectancy to all that something is actually going to be done. Everyone of course will expect sound and constructive measures to govern the policies and the business of the National Credit Corporation. But if its policies, as some publicity has impressed readers communicating with us, should be narrow or so constrictive as not to open the door to all legitimate needs for credit based upon good mortgages and upon such good but perhaps somewhat slow paper, then the morale of Bankers as well as the morale and the faith in the corporation of the general public will unquestionably sink to levels lower than if the plans for the National Credit Corporation had never been pronounced by the President. We believe that our commentators have the wrong slant on the National Credit Corporation.

We respectfully say that we feel sure that you are as aware as any of us can be of the imperativeness of the National Credit Corporation being organized as quickly as possible with a clear and definite program broad enough and generous enough, yet under sound business policies of course, to open its doors to any deserving Bank, no matter how rural, which is still hanging on with the hope that the National Credit Corporation will be able to give it some merited relief within a minimum number of days.

Without making this letter more protracted we respectfully say, Mr. Meyer, that the situation in many of our localities is desperate. If the War Finance Corporation or a counterpart could at this time be revived it would be a God-send. If the National Credit Corporation could operate along somewhat the lines of the War Finance Corporation by dealing direct with the borrower Bank through a State Agency or State Central office, we believe that it will add still more infinitely in giving hope and encouragement to a great class of our rural Bankers who so indescribably need it at this time. As wired to you on October 8, 1931, this Association on October 7, 1931 held in Des Moines a state meeting of Iowa bankers, appointed a State Committee whose names are attached, representative of city and non-city banks, national and state banks, and all geographically chosen. An entire statewide organization has been already completed. This State Committee and its statewide organization created to assist it in investigating distressed bank cases and credit necessities, are all ready to be put to work as the National Credit Corporation can use them. Office space and assistance of this State Association is even ready to at least get their work under way. Thus, it will be seen that we are ready to begin serving the National Credit Corporation in Iowa. Will you kindly help us, as you may find it expedient to do so, to begin early action through the National Credit Corporation for those Iowa Banks who are so expectantly and hopefully hanging on in anticipation of aid. In writing this we wholeheartedly express our respect and confidence in the able and splendid group of men who have been working upon the unprecedented financial undertaking of the National Credit Corporation and also in those loyal and able men who have charge of its administration. Anything that you can do to impress all with governmental or non-governmental interest in the National Credit Corporation with the importance of as early action as possible will be gratefully appreciated by all of us out here in Iowa.

Yours very cordially and respectfully,

Ivan O. Hasbrouck

IOH DBS

President.

(P.S.) To the subject matter of this letter may we kindly add this comment:

It is sound and fundamental to preserve intact the principle of liquidity upon which the Federal Reserve System is built. We also respectfully add that it would seem that Congress could well afford, however, to consider some measure or means to handle good but slow paper to tide the Nation or any section of the Nation over a period of emergency and distress, such as the one through which the Country is now going, by means of providing statutory machinery under which some form of a subsidiary may be set in operation by the Federal Reserve Board or by other Governmental agencies if and when and as deemed best, for the express purpose of handling what is known as good but slow paper but with a more or less extended due date. Non-commercial paper is still in the same unfortunate position as to its marketability or liquidity during socalled "hard times" as commercial paper was before the Federal Reserve System was created by the Government. We respectfully express the dire need of the Government officials continuing their earnest and commendable research looking toward providing such good but slow paper as herein referred to some outlet in times bordering upon hysteria or upon panic by bank depositors in some sections of the Country and even in this State such as have been occurring and are occurring, the evidences of which have been fully apparent to you.

This letter goes via Air Mail.

October 7, 1931 - (20)

<u>Committee</u>
<u>appointed to carry out the program adopted today by the Officers and other members of the Iowa Bankers Association at a meeting held in Des Moines, October 7, 1931.</u>

(1) B. F. Kauffman, President, Bankers Trust Company, Des Moines, <u>Chairman</u>
(2) Walter T. Robinson, Cashier, Citizens National Bank, Hampton
(3) William J. Lewis, President, Harlan National Bank, Harlan
(4) Fred J. Figge, President, Ossian State Bank, Ossian
(5) J. E. Hamilton, President, Merchants National Bank, Cedar Rapids
(6) F. F. Everest, President, First National Bank, Council Bluffs
(7) Wm. Heuer, President, Union Savings Bank & Trust Co., Davenport
(8) R. B. Dalton, Cashier, First National Bank, Le Mars
(9) Ivan O. Hasbrouck, Cashier, Iowa State Bank, Jefferson, <u>President, I. B. A.</u>
(10) Frank Warner, Des Moines, <u>Secretary of Committee</u>

245.101

For CIRCULATION:
FEDERAL RESERVE BOARD FILE
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr. Morrill
Mr.
Mr.
Please initial and return to GOVERNOR.

3313

File

October 29, 1931

Dear Mr. Hardwick:

I have your letter of October 7 making inquiry with regard to certain of the operations of the Federal reserve banks since their establishment in 1914, and in reply thereto I take pleasure in furnishing you herewith such of the information requested as is available.

With regard to Federal reserve notes I am enclosing herewith a statement showing (a) the amount of Federal reserve notes issued through the Federal reserve agents to the Federal reserve banks as of June 30 of each year from 1915 to 1931 inclusive, and (b) the amount of Federal reserve notes issued by the Federal reserve banks (excluding those held by the banks themselves on the same dates).

In connection with your request for figures showing the amount of Federal reserve bank discounts for member banks of bills to finance agricultural shipments and of obligations given for other agricultural purposes or based upon live stock, etc., I may say that it became evident soon after the Federal Reserve System was established that a classification of the paper held under discount by the Federal reserve banks gave little if any indication of the purpose for which the proceeds of the discounts were being used. This is due to the fact that from the beginning member banks desiring to borrow from the Federal reserve banks have made it a practice to go through their loan portfolios and select such paper as was most convenient to rediscount, regardless of the purposes for which the accommodation was needed. For example, a member bank in an agricultural community may have substantial demands from its customers for funds to take care of their seasonal requirements such as the planting and harvesting of crops, but in order to obtain such funds as are needed from the Federal reserve bank the member bank is just as likely to rediscount any commercial paper that it may have on hand as agricultural paper. Furthermore, since the Federal Reserve Act was amended in 1916 to permit member banks to obtain accommodation from Federal reserve banks on their own promissory notes secured by eligible paper or by obligations of the United States Government, member banks needing funds for relatively short periods have found it much more convenient to borrow on their own notes secured by United States Government obligations than to rediscount eligible paper.

For the above reasons the Board has made no attempt in recent years to classify paper into the various groups mentioned in your letter. Certain classifications have been made, however, of both bills discounted for member banks and of bills purchased in the open market by the Federal reserve banks, and we are enclosing statements covering these classifications as of the end of June of each year from 1915 to 1931 inclusive. As you know, in addition to discounting paper for Federal intermediate credit banks, the Federal reserve banks are authorized to buy Federal intermediate credit bank debentures and Federal land bank bonds having a maturity of not to exceed six months at the time of purchase. The amounts of these securities held by the Federal reserve banks on June 30 of each year, from 1924 to 1931, inclusive, are also shown in one of the enclosed statements.

In 1921 when the Congressional Joint Commission of Agricultural Inquiry was making its studies the Board made a special effort to ascertain as nearly as practicable the amount of Federal reserve bank rediscounts which were made for the benefit of agriculture. In order to do this it grouped the member banks throughout the United States into those located in agricultural, semi-agricultural and non-agricultural counties, and then tabulated the paper under rediscount for banks in each class of counties. The results of this survey were published in the September and October 1921 Federal Reserve Bulletins, pages 1049 and 1150, respectively, copies of which are enclosed herewith, and in part 13 of the hearings before the Joint Commission of Agricultural Inquiry.

Very truly yours,

(Signed) Eugene Meyer

Eugene Meyer,
Governor.

Mr. Thomas W. Hardwick,
Pottle, Hardwick, Farkas & Cobb,
Attorneys-At-Law,
Albany, Georgia.

Enclosures

FEDERAL RESERVE NOTES ISSUED TO THE FEDERAL RESERVE BANKS (NOTES OUTSTANDING) AND FEDERAL RESERVE NOTES IN ACTUAL CIRCULATION ON JUNE 30 OF EACH YEAR FROM 1915 TO 1931

Date	Federal reserve notes outstanding	Federal reserve notes in circulation
June 30, 1915	$84,261,000	$74,700,000
30, 1916	176,168,000	152,244,000
30, 1917	547,408,000	509,836,000
30, 1918	1,847,580,000	1,727,739,000
30, 1919	2,687,557,000	2,513,364,000
30, 1920	3,405,877,000	3,130,100,000
30, 1921	3,000,430,000	2,648,086,000
30, 1922	2,555,062,000	2,152,962,000
30, 1923	2,676,901,000	2,253,033,000
30, 1924	2,339,048,000	1,860,923,000
30, 1925	1,942,239,000	1,650,826,000
30, 1926	1,995,206,000	1,697,282,000
30, 1927	2,077,473,000	1,720,702,000
30, 1928	2,002,811,000	1,644,504,000
30, 1929	2,194,970,000	1,712,865,000
30, 1930	1,746,501,000	1,423,774,000
30, 1931	2,101,579,000	1,723,434,000

FEDERAL RESERVE BOARD
OCTOBER 10,1931

mj

CLASSIFICATION OF PAPER DISCOUNTED BY FEDERAL RESERVE BANKS AND HELD AT THE END OF JUNE OF EACH YEAR FROM 1915 TO 1931.
(In thousands of dollars)

Date	Total (all classes)	Rediscounted bills					Member bank collateral notes	
		Commercial and agricultural paper, n.e.s.	Demand and sight drafts	Bankers' acceptances	Trade acceptances	Secured by U. S. Government obligations	Secured by U. S. Government obligations	Otherwise secured
June 25, 1915	25,996	25,996	-	-	#	#	**	**
30, 1916	21,188	21,188	-	-	#	#	**	**
29, 1917	197,242	81,229	-	#	#	#	25,674	90,339
28, 1918	869,175	371,977	-	#	16,509	114,072	310,284	56,333
27, 1919	1,818,040	221,658	-	1,113	7,803	232,818	1,340,665	13,983
25, 1920	2,431,794	1,105,683	-	25,174	20,034	315,835	962,145	2,923
30, 1921	1,751,350	1,076,225	-	8,456	13,853	113,803	523,787	15,226
30, 1922	461,418	277,749	-	81	3,757	3,983	163,258	12,590
30, 1923	836,949	417,495	-	-	4,705	4,000	403,356	7,393
30, 1924	333,954	209,260	-	9	4,616	1,636	113,944	4,489
30, 1925	480,468	180,901	-	-	2,496	1,095	244,226	51,750
30, 1926	515,031	196,484	86	28	2,948	1,416	251,513	62,556
30, 1927	443,450	143,591*	27	-	2,130	2,608	242,758	52,336
30, 1928	1,095,423	215,636*	94	8	1,283	2,287	747,577	128,538
30, 1929	1,037,149	285,668*	42	5,831	2,302	901	573,705	168,700
30, 1930	271,828	119,133*	18	-	1,236	334	108,139	42,968
30, 1931	149,161	82,202*	14	-	659	1,604	45,790	18,892

*Figures include bills discounted for Federal intermediate credit banks as follows: 1927 - $650,000; 1928 - $412,000; 1929 - $5,790,000; 1930 - $656,000; 1931 - $371,000.

#Not reported separately -- any such paper held under discount is included in column 2.

**Advances to member banks on their own promissory notes secured by eligible paper or by United States Government securities were authorized by the September 7, 1916 amendment to the Federal Reserve Act.

FEDERAL RESERVE BOARD
OCTOBER 12, 1931

CLASSIFICATION OF BILLS BOUGHT IN OPEN MARKET BY THE FEDERAL RESERVE BANKS AND HELD AT THE END OF JUNE OF EACH YEAR FROM 1915 TO 1931

(In thousands of dollars)

Date	Total bills bought in open market	Bankers' acceptances: Based on - Foreign transactions	Bankers' acceptances: Based on - Domestic transactions	Bankers' acceptances: Dollar exchange	Trade acceptances
June 25, 1915	10,379	(No classification of bills bought in open market was reported prior to 1921)			
30, 1916	71,095				
29, 1917	202,270				
28, 1918	216,848				
27, 1919	304,558				
25, 1920	399,185				
30, 1921	40,223	28,470	8,492	3,168	93
30, 1922	161,112	124,142	31,655	4,535	780
30, 1923	205,600	160,117	37,115	7,833	535
30, 1924	36,524	28,784	6,790	925	25
30, 1925	253,507	208,464	41,990	2,203	850
30, 1926	249,394	211,545	34,417	3,026	406
30, 1927	210,585	172,103	32,494	5,744	244
30, 1928	216,865	176,471	37,235	2,800	359
30, 1929	81,592	64,217	14,633	2,446	296
30, 1930	127,838	95,231	30,451	2,153	3
30, 1931	105,502	83,474	16,792	5,236	-

AMOUNT OF FEDERAL LAND BANK BONDS AND OF FEDERAL INTERMEDIATE CREDIT BANK DEBENTURES HELD BY THE FEDERAL RESERVE BANKS AT THE END OF JUNE OF EACH YEAR FROM 1924 TO 1931, INCLUSIVE (a)

(In thousands of dollars)

Date	Federal Land Bank Bonds	Federal Intermediate Credit Bank Debentures
June 30, 1924	-	1,250
30, 1925	-	2,250
30, 1926	-	3,200
30, 1927	-	1,300
30, 1928	-	490
30, 1929	-	12,165
30, 1930	5,250	-
30, 1931	750	8,175

(a) None held by Federal reserve banks on June 30 prior to 1924.

REC'D BK. OF OCT

POTTLE, HARDWICK, FARKAS & COBB
ATTORNEYS AT LAW
ALBANY, GEORGIA

J. R. POTTLE
THOS. W. HARDWICK
LEONARD FARKAS
HOWELL COBB

LAMAR COX

10-7-1931.

Hon. Eugene Meyer,
Governor Federal Reserve Board,
Treasury Building,
Washington, D. C.

Dear Sir:-

I am anxious to get certain information from you respecting fiscal operations of the Federal Reserve Banking System:

(1) What amount of Federal Reserve notes has been issued "at the discretion of the Federal Reserve Board for the purpose of making advances to the Federal Reserve Banks, through Federal Reserve agents",-- as authorized in the Act of December 23, 1913. Please give the amount of such issue, at the present time, and, yearly, since the establishment of the Federal Reserve System;

(2) Please give me the total amount of bank notes issued by the Member Banks to the Federal Reserve Banks, at the present time; and this same information for each year since the establishment of the Federal Reserve System;

(3) Please give me the total amount, at the present time, of the discounts by the Federal Reserve Banks, for the Member Banks, of

(a) Discount of obligations arising out of actual commercial transactions;

(b) Discount or purchase of bills to finance agricultural shipments;

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OFFICE OF
THE GOVERNOR

P-2--Hon. Eugene Meyer.

(c) Discount of acceptances;

(d) Discount of obligations given for agricultural purposes, or based upon live stock;

(e) Re-discount for Intermediate Credit Banks, of obligations given for agricultural purposes; and,

(f) All other re-discounts by Federal Reserve Banks. as authorized by the Act of Dec 23, 1913

I wish this information covering the transactions of the Federal Reserve Board and Federal Reserve Banks, for the entire Country, and would like to have it given as of date June 30, 1931, and June 30th of each preceding year since the establishment of the Federal Reserve System.

I had something to do with the framing and passage of the Federal Reserve Act, and am anxious to learn something about its operations. I believe the public is entitled to the information which I seek, and that, as a citizen of the United States, I am entitled to it; and I hope and have no doubt that the reports and records of your office will enable you to supply this information without any great amount of labor or trouble.

Very respectfully yours,
Thomas W. Hardwick

TWH-ok-

November 10, 1931.

Honorable Carter Glass,
Lynchburg, Virginia

Dear Senator Glass:

In accordance with my letter of October twenty-second, I take pleasure in sending you two copies of certain material prepared by the Federal Reserve System's Committee on Branch, Group, and Chain Banking. This material covers: (1) Bank Changes; (2) Suspensions; (3) Banking Costs and Profits; (4) Branch Banking, and (5) Chain and Group Banking. The material in these reports consists of tables and charts, together with a brief explanatory text. As the data are in preliminary form, subject to revision, they are not yet ready for publication, and for that reason have been marked "confidential".

I hope that these reports may be of service to your Subcommittee. A limited number of copies has been mimeographed, and the Committee will be glad to supply you with a few additional copies, if you so desire.

With best wishes, I am

Sincerely yours,

(Signed) Eugene Meyer

Governor

For CIRCULATION:
Mr. Hamlin ✓
Mr. James ✓
Mr. Magee ✓
Mr. Miller ✓
Mr. Pole ✓
MORRILL CW
Mr.
Mr. OHa
Please note ~~initial~~ and return to GOVERNOR.

October 22, 1931.

Honorable Carter Glass,

Lynchburg, Virginia.

Dear Senator Glass:

I have been out of the city for a few days and this is the first opportunity I have had to reply to your letter of October 15.

I have discussed with Dr. Goldenweiser, Chairman of the Committee on Branch, Group and Chain Banking appointed by the Federal Reserve Board, the status of the work of the Committee. He tells me that some of the material that has been gathered by the Committee probably can be made available to you during the first part of November. This material, which will include statistical data, together with some charts and explanatory text, with respect to (A) Bank Suspensions; (B) Earnings and Expenses of National Banks; (C) Banking Concentration; (D) Branch Banking, and (E) Group and Chain Banking, will be forwarded to you as soon as it can be put in shape.

While considerable progress has been made in connection with the other features of the Committee's study, much remains to be done in the way of digesting and interpreting the material, and Dr. Goldenweiser thinks that some little time may be required to put it into such shape that it would be useful to the Committee. We have asked him to expedite the work as much as possible, and he assured me that he will do so.

With best wishes, I am

Sincerely yours,

(Signed) Eugene Meyer

Governor.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 16, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser EAG

2—8495

Mr. Harrison told me this morning that the Board has received a letter from Senator Glass requesting that his sub-committee be furnished, in so far as possible, with the data collected by the committee on branch, group, and chain banking.

I am sending you herewith a copy of a report of progress which Mr. Riddle, the committee's secretary, has prepared for submission to the autumn conference of governors and chairmen. This report of progress indicates the subjects that the committee is working up and the status of the different investigations. As I told you the other day, I do not feel that we can give Senator Glass anything in the nature of a report from the committee at this time, because the material has not been thoroughly digested and interpreted, and such reports as have been prepared by the members of the staff have not been gone over or approved by the committee. I think, however, that if the Board thinks it desirable the committee can furnish Mr. Glass with the statistical data, together with some charts and explanatory text, on the five principal statistical inquiries; namely, (1) Bank Suspensions; (2) Earnings and Expenses of National Banks; (3) Banking Concentration; (4) Branch Banking, and (5) Group and Chain Banking. I believe the committee can make this material available to the Senator in the early part of November.

I should like to suggest that you talk this matter over with Senator Glass in order to make it clear to him that the system wishes to do whatever it can to be of assistance to him, and that we are not at this time submitting the entire report because it does not exist, rather than because we are holding anything back.

Washington, D. C.
October 14, 1931.

PROGRESS REPORT OF THE COMMITTEE ON BRANCH, GROUP AND CHAIN BANKING
TO THE AUTUMN CONFERENCE OF GOVERNORS AND CHAIRMEN
OCTOBER, 1931

Immediately after appointment by the Federal Reserve Board on February 26, 1930, the Committee on Branch, Group and Chain Banking began to outline the scope of its work and to prepare a program for its investigation. The task assigned by the Board was very broad in its terms, but it soon became apparent to the Committee that in view of the importance of the time element some very definite limitations to its field of study should of necessity be made. After surveying the field in a preliminary way, it was decided to concentrate the Committee's efforts on certain major projects which bear directly on the question of the banking structure rather than to extend the investigation too broadly.

The phases of the subject to which it was decided to give most attention are the following:

✓ (1) Bank Suspensions in the United States

✓ (2) Earnings and Expenses of National Banks

(3) The Dual Banking System in the United States

✓ (4) Banking Concentration in the United States

✓ (5) Branch Banking in the United States

✓ (6) Group and Chain Banking in the United States

(7) Branch Banking in Canada

(8) Branch Banking in England

These projects will be supplemented by a few brief chapters on such subjects as: economic background for bank changes, competition from non-banking institutions, certain phases of bank supervision, and perhaps the banking systems of one or two other foreign countries if time permits. Among the subjects which the Committee feels that it cannot adequately cover under its present program are: banking supervision in the United States, functional changes in our banking system, and the banking systems of other leading foreign countries. In view of the importance of bank supervision in this country and its apparent shortcomings it is believed that any adequate investigation of that subject would have to be made by a special committee endowed with special powers.

After a survey of the material which was then available on the various projects listed above, the Committee felt that merely assembling and analyzing this material would make little contribution to existing information and would not adequately meet the needs of the situation.. Because of the need for a more comprehensive body of data on which a constructive banking program might be based it was decided to collect through various channels whatever additional factual material would be necessary to give a more comprehensive picture of the causes for banking difficulties and of the forces tending towards changes in the banking structure.

Various schedules, questionnaires, forms and tables were, therefore, prepared designed to secure the desired information regarding: (1) Each of the 7,000 bank suspensions during the ten-year period 1921-1930; (2) Earnings and expenses and operating ratios of each national bank for each of five years 1926-1930; (3) The organization, management, operating policies, etc., of the leading group and branch banking systems of the country; (4) The details of consolidations and other bank changes during the ten-year period; (5) The affiliations of banks; (6) The classification of all active banks in the country by size of loans and investments, size of town and size of capital stock; (7) Examination reports of suspended banks; (8) Farm loans and other data showing the nature of agricultural commitments; (9) Quality indices of the investment holdings of banks, and certain other supplementary bits of information.

Much of this information has been compiled by the Federal reserve banks but parts of it have been furnished by the state banking departments and other agencies at the request of the Federal reserve banks. Much of the material was not received until this past spring and summer, but, with minor exceptions, it is now in the hands of the Committee, and the process of analyzing it is well on the way towards completion.

Reports on these major projects have been submitted and are now being revised, after which they will be worked over for final submission.

The following is a brief statement of the scope of the work undertaken under the various projects.

Suspensions. The study on suspensions has been divided into four sections and material has been collected on each of these phases of the subject.

(1) A statistical analysis which in addition to giving the number and location of suspensions makes comparisons on the basis of the size of banks, size of towns, and geographical divisions. This study also shows the ultimate losses to depositors of banks completely liquidated. These detailed statistical data cover only the period 1921-1930, while for prior years back to 1890 more general statistical information has been compiled.

(2) Causes of suspensions as revealed in the study of examination reports of a limited number of suspended banks. This touches upon such subjects as management, supervision, loan policies, etc.

(3) Agricultural conditions and bank suspensions. This is a study of agricultural changes since 1900, including commodity prices and land values and their effects upon banking institutions. It also includes a study of bank commitments to agriculture and the general credit conditions in agricultural districts.

(4) Florida--a case study of the effects of real estate speculation on banking institutions.

Earnings and Expenses. A detailed study of earnings and expenses of all national banks over a five-year period, 1926-1930, classified according to size of bank, size of community and by geographical divisions. This is supplemented by a presentation of the general movements and factors in bank earnings and expenses over several decades.

The Dual Banking System. An examination of Federal and state banking laws, recommendations, practices, etc., with a view to determining the extent of the competition which has existed between the two systems and the general effects of this competition. It also includes certain comparisons and salient facts regarding bank supervision.

Banking Concentration. This is largely a statistical study of the changes in the number, nature and size of banking institutions including consolidations, affiliations, etc.

Branch Banking in the United States. The study on branch banking will be covered in two sections:

(1) A general statistical and historical study of branch banking experience in the United States including a discussion of the sources and causes of opposition and the factors involved in the branch banking controversy.

(2) Branch banking in California. This is a special study on the growth and present position of branch banking in California including motivating forces, effects of the development, etc.

Group and Chain Banking in the United States. An outline of the development and present position of group and chain banking, including organization, management, policies, methods of operation, etc. It also includes a discussion of the problems involved in group banking and the effects of this development. Much of the material for this report comes from the questionnaires answered by the principal groups in the country.

Branch Banking in Canada. This report has been written and after a limited amount of editing will be ready for submission. In includes a discussion of the following phases of Canadian branch banking: structure and supervision, safety, adequacy of service, cost of service, test of the post-war deflation, and concentration. In addition to making use of the documentary and other published material available in this country, a member of the research staff spent about four weeks in Canada studying the various phases of branch banking.

Branch Banking in England. The section on branch banking in England, which covers roughly the same ground as the Canadian study, has been prepared and with a limited amount of editing will be ready for submission.

October 16, 1931.

Hon. Carter Glass,
Lynchburg, Virginia

Dear Senator Glass:

In the absence of Mr. Meyer, I acknowledge receipt of your letter of October 15, 1931.

I shall be pleased to bring it to Mr. Meyer's attention upon his return to the office the first part of next week.

Very truly yours,

(Signed) F. L. Fahy

Secretary to the Governor

United States Senate

COMMITTEE ON APPROPRIATIONS

Lynchburg, Virginia.

October 15, 1931.

My dear Governor Meyer:

In closing the investigations of the Sub-committee on Banking and making ready for its report, I should like very much to have available such reports of your inquiry into branch, group and chain banking as you may be able to supply us. My understanding is that during the past year or two you have had a special committee at work representing the Board and the several reserve banks and that you are now approaching the conclusion of your analysis.

Without attempting to urge any compilation of difficult material that is not now already in hand, it has occurred to me that you may be in position to furnish the major items of information and the principal conclusions that you have reached in order that we may have the benefit of them in the work of our committee.

Sincerely yours,

Carter Glass.

Chairman.

The Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

November 30, 1931.

Mr. D. M. Hildebrand, President,
Nebraska Improved Live Stock Breeders Assn.,
Seward, Nebraska

Dear Mr. Hildebrand:

I have your letter of November 24, 1931, which I have read with interest.

The Federal intermediate credit banks, as you probably know, are under the supervision of the Federal Farm Loan Board, and I am sure there is every desire on the part of the Board to see them function as effectively as possible under existing conditions. The Federal intermediate credit banks are not authorized under the law to make loans direct to stock men, but they can and do discount agricultural and livestock paper for state and national banks, agricultural credit corporations, and livestock loan companies. I understand that a number of credit corporations or loan companies recently have been formed by local interests in some parts of the territory covered by the Federal Intermediate Credit Bank of Omaha, and I am wondering if it would not be possible for those interested in the western part of Nebraska to bring about the organization of a loan company, with adequate capital and competent management, which would be in a position to do business with the Omaha institution.

I note your statement with respect to the delays that occur in the handling of the business of the intermediate credit banks. If you have any concrete instances in mind, I suggest that you bring them to the attention of Mr. Hogan, the President of the Omaha bank. I am sure that he will be glad to go over the matter carefully with a view of determining whether the delays were justified and whether anything properly can be done to expedite consideration of applications from the companies for which it is discounting paper,

Very truly yours,

Governor

NEBRASKA IMPROVED LIVE STOCK BREEDERS ASSOCIATION

AGRICULTURAL COLLEGE
OFFICE OF THE PRESIDENT
SEWARD, NEBRASKA

November 24, 1931

Honorable Eugene Meyer
Governor Federal Reserve Board
Washington, D. C.

Dear Sir:

While attending the joint meeting of the Federal Reserve Directors at Kansas City last week, I made mention of the fact that in my travels over Nebraska I found nothing butpraise for the Federal Reserve Bank System among the bankers of our district, but I could not say as much for the Intermediate Credit Bank.

Apparently it does not function in accordance with the way it was intended to function, and surely in times like we are having right now the live stock and agriculture people do not seem to be able to make very much of the facilities as they now operate, in the Intermediate Credit Bank.

I have had an occasion to go to Omaha recently with men in the western part of the State that had need of help and apparently had sufficient security, but on account of no local organization they were unable to secure any loans on their live stock that they had to offer.

I find a general complaint that it takes too long to get loans through, where they are made, and practically everybody that I come in contact with that has run up against the Intermediate Credit Bank,disapproves of the red tape that they are asked to go through with in order to get credit. If it was possible to get the Intermediate Credit Bank on a working basis in some way, whereby it would be made available with less red tape and less organization, I am sure it would bring relief not only to our banks, but provide our people with credit that it is not possible to get just now.

At the suggestion of Mr. Mc Lucas I am calling same to your attention, hoping that in someway a plan can be devised whereby it will become workable.

Yours very truly,

D M Hildebrand

DMH:LB

Argo domestic
To Note
Fro

December 15, 1931.

Mr. Jos. D. Goodman,
1423 Walnut Street,
Philadelphia, Pa.

Dear Mr. Goodman:

In the absence of Governor Meyer, I acknowledge receipt of your letter of December 14, which I shall be pleased to bring to the attention of the Governor upon his return to the office.

Very truly yours,

(Signed) F. L. Fahy
Secretary to
the Governor

FILE COPY

NEWBURGER, LOEB & CO.

MEMBERS OF

NEW YORK STOCK EXCHANGE NEW YORK CURB EXCHANGE
PHILADELPHIA STOCK EXCHANGE NEW YORK PRODUCE EXCHANGE

NEW YORK
40 WALL STREET
202 FIFTH AVENUE
1 EAST 43RD ST.
1400 BROADWAY
HOTEL ANSONIA

1423 WALNUT STREET

PHILADELPHIA

LEBANON, PA.
ATLANTIC CITY
HOTEL TRAYMORE BLOCK
NORTH PHILADELPHIA
3732 GERMANTOWN AVENUE

An important matter.

Dec. 14, 1931.

Dear Mr. Meyer:

If we permit France to withdraw in gold the 600 million she is said to have in New York, the reserve ratio will decline from its present figure of 66 into the 40's, and the rediscount rates will be put up to 6 or 7 percent. This would cause a 20 point decline in our AAA bonds. Our banks could not stand this.

The time to place a ban on gold exports is while we still have some gold left, and I recommend that this be done at once, without advance notice to anybody. If it were done, confidence would be restored in our currency, and a lot of money would come out of its hiding places. This would also prevent Europe from withdrawing in gold, the proceeds of the sale of any American securities in our markets which she might make in the near future.

If we wait until our gold reserve is almost exhausted before placing this ban, much irreparable damage will have done in the interim.

Yours sincerely,

Jos. D. Goodman

To
Hon. Eugene Meyer, jr.,
Governor, Federal Reserve Board,
Washington, D.C.

RECEIVED
DEC 15 1931
OFFICE OF
THE GOV[illegible]

December 18, 1931.

Mr. Henry R. Hayes, Chairman,
Money & Credit Advisory Special Committee,
90 Broad Street,
New York, N. Y.

Dear Mr. Hayes:

Please accept my thanks for your letter of December 16 and for your courtesy in sending me a copy of the December 3 issue of Investment Banking, which I shall read with interest at the first opportunity.

Very truly yours,

(Signed) Eugene Meyer

Governor

FILE COPY

OFFICE OF
HENRY R. HAYES, PAST PRESIDENT
~~XXXXXXXX~~
NEW YORK
90 Broad Street

December 16, 1931

Honorable Eugene Meyer, Jr., Governor
Federal Reserve Board
Washington, D. C.

Dear Mr. Meyer:

Referring to the chats which I had with you more than a year ago concerning studies on the money and credit policies of the country which this Association has been making, I enclose to you herewith Vol.II, No. 2, December 3, 1931 issue of INVESTMENT BANKING, which gives a reprint of the report of the special advisory committee on that subject submitted to the 1931 annual convention.

Yours very truly,

Henry R. Hayes

Henry R. Hayes
Chairman
Money & Credit Advisory Special Committee

Enclosure