The Papers of Eugene Meyer (mss52019)

117_08_001- Subject File, Federal Reserve Board, Glass Bill (H.R. 9203) 1933
In the Senate of the United States,

February 17 (calendar day, February 19), 1932.

Resolved, That the bill from the House of Representatives (H. R. 9203) entitled "An Act to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes," do pass with the following

AMENDMENT:

Strike out all after the enacting clause and insert in lieu thereof the following:

That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"Sec. 10. (a) Upon receiving the consent of not less than a majority of the members of the Federal Reserve Board, any Federal reserve bank may make advances in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks, a majority of them independently owned and controlled, within its district, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other
than as provided in section 10 (b). The liability of the
individual banks in each group must be limited to such pro-
portion of the total amount advanced to such group as the
deposit liability of the respective banks bears to the aggre-
gate deposit liability of all banks in such group, but such
advances may be made to a lesser number of such member
banks if the aggregate amount of their deposit liability con-
stitutes at least 10 per centum of the entire deposit liability
of the member banks within such district. Such banks shall
be authorized to distribute the proceeds of such loans to such
of their number as in such amount as they may agree
upon, but before so doing they shall require such recipient
banks to deposit with a suitable trustee, representing the
total group, their individual notes made in favor of the
individual notes made in favor of the

No obligations of any foreign government, individual,
partnership, association, or corporation organized under the
laws thereof shall be eligible as collateral security for ad-
varces under this section.

"Member banks are authorized to obligate themselves in
accordance with the provisions of this section."

SEC. 2. The Federal Reserve Act, as amended, is
further amended by adding, immediately after such new
section 10 (a), an additional new section reading as follows:

"SEC. 10. (b) Until March 3, 1934, an additional new section reading as follows:

SEC. 10. (b) Until March 3, 1934, and in excep-
tional and exigent circumstances, and when any member
bank, having a capital of $2,000,000 or less, has no further
eligible and acceptable assets available to enable it to obtain
adequate credit accommodations through rediscouting at the
Federal Reserve Bank or any other method provided by this
Act other than that provided by section 10 (a), any Federal
reserve bank, subject in each case to affirmative action by
a majority of the

No such note upon which advances are
made by a Federal reserve bank under this section shall be
eligible under section 16 of this Act as collateral security
for Federal reserve notes.

"No obligations of any foreign government, individual,
partnership, association, or corporation organized under the
authority of this section, and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

SEC. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: Provided, however, That until March 3, 1934, should the Federal Reserve Board

deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1934, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

Attest:

Secretary.
TEXT OF GLASS-STEAGALL BILL AS PASSED BY SENATE ON FEBRUARY 19TH, 1932.

72d Congress
1st Session

H. R. 9203

A bill to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"SEC. 10. (a) Upon receiving the consent of not less than six members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks a majority of them independently owned and controlled within its district upon their time or demand promissory notes;

provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amount of eligible or acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank, through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but
before so doing they shall require such recipient banks to deposit with a suitable
trustee, representing the entire group, their individual notes made in favor of
the group protected by such collateral security as may be agreed upon. Any
Federal reserve bank making such advance shall charge interest thereon at a rate
not less than 1 per centum above its discount rate in effect at the time of mak-
ing such advance. No such note upon which advances are made by a Federal reserve
bank under this section shall be eligible under section 16 of this Act as
collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, asso-
ciation, or corporation organized under the laws thereof shall be eligible as
collateral security for advances under this section.

"Member banks are authorized to obligate themselves in accordance with the
provisions of this section."

SEC. 2. The Federal Reserve Act, as amended, is further amended by adding,
immediately after such new section 10 (a), an additional new section reading as
follows:

"SEC. 10. (b) Until March 3, 1934, and in exceptional and exigent circum-
cstances, and when any member bank, having a capital of $2,000,000 or less, has
no further eligible and acceptable assets available to enable it to obtain
adequate credit accommodations through rediscounting at the Federal reserve bank,
or any other method provided by this Act other than that provided by Section 10
(a), any Federal reserve bank, subject in each case to affirmative action by not
a majority
less than six members of the Federal Reserve Board, may make advances to such
member bank on its time or demand promissory notes secured to the satisfaction of
such Federal reserve bank: PROVIDED, That (1) each such note shall bear interest
at a rate not less than 1 per centum per annum higher than the highest discount
rate in effect at such Federal reserve bank on the date of such note; (2) the
Federal Reserve Board may by regulation limit and define the classes of assets
which may be accepted as security for advances made under authority of this
section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

SEC. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates; provided, however, that, until March 3, 1934, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1934, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."
In section 2 in the first sentence of the proposed new section 10 (b) strike out the words "having a capital of $2,000,000 or less" and the commas preceding and following the clause thus stricken out. At the end of said first sentence substitute a colon for the period and add the following proviso: "Provided further, That in the case of any such member bank having capital stock of more than $2,000,000 no loan shall be made under this section in an amount exceeding 10 per cent of the deposit liabilities of such member bank".
AN ACT

To improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"SEC. 10. (a) Upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain
sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."
Mr. STEAGALL introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed

A BILL

To extend the time during which certain provisions of the Act of February 27, 1932, relating to improving the facilities of the Federal reserve system to meet the needs of member banks in exceptional circumstances, shall be effective.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
2 That section 10 (b) of the Federal Reserve Act, as amended (U. S. C., Supp. VI, title 12, sec. 347b), and the second paragraph of section 16 of the Federal Reserve Act, as amended by section 3 of the Act entitled "An Act to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes," approved February 27, 1932 (U. S. C., Supp. VI, title 12, sec. 412), are amended by striking out the date "March 3, 1933" wherever it appears and inserting in lieu thereof "March 3, 1934."
EXTENSION OF SECTIONS 2 AND 3 OF THE GLASS-STEAGALL ACT

JANUARY 27, 1933.—Referred to the House Calendar and ordered to be printed

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

REPORT

[To accompany H. R. 14252]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 14252) to extend the time during which certain provisions of the act of February 27, 1932, relating to improving the facilities of the Federal reserve system to meet the needs of member banks in exceptional circumstances, shall be effective, having considered the same, report favorably thereon with the recommendation that the bill do pass.

The only change the bill will make in existing law is to extend until March 3, 1934, the provisions of sections 2 and 3 of the Glass-Steagall Act approved February 27, 1932. That act consists of three sections: Section 1 is permanent legislation, while sections 2 and 3 expire by limitation on March 3, 1933. On January 9, 1933, in letters to the chairman of the Senate and House Committees on Banking and Currency, the Federal Reserve Board expressed the view that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority, and stated that, in any event, it is the opinion of the board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Section 2 of the Glass-Steagall Act, which added a new section designated as 10(b), to the Federal reserve act, authorizes the Federal reserve banks, in exceptional and exigent circumstances, to make advances to member banks having a capital of not exceeding $5,000,000 against paper that would otherwise not be eligible for discount, in case these banks lack an adequate supply of eligible paper. The existence of this authority has made it possible for the Federal reserve banks to extend to a considerable number of member banks credit...
that was urgently needed to tide them over a difficult period and in some instances to prevent suspension. The committee feels that the Federal reserve banks should not be deprived of the ability to render this service to their member banks, and it is important, therefore, that section 2 be continued.

Under section 3 of the Glass-Steagall Act the Federal Reserve Board was granted for one year the power to permit the use of United States Government securities as collateral against Federal reserve notes. Having received this authority, the Federal reserve banks were in a position, through the purchase of United States Government securities, to enable member banks to meet the demands placed upon them arising from gold exports and currency withdrawals and at the same time to reduce their indebtedness to the reserve banks.

Between February 27 and July 20, 1932, the Federal reserve banks bought $1,100,000,000 of Government securities.

In administering its authority under section 3 of the Glass-Steagall Act the Federal Reserve Board authorized the pledging of United States securities as collateral to the extent necessary to enable the system to pursue its credit policy and at the same time to maintain at the Federal reserve banks a sufficient supply of Federal reserve notes for operating purposes. The requirements of the board in this matter were described on pages 286 and 287 of the Federal Reserve Bulletin for May, 1932.

Securities were first pledged on May 5, 1932; the largest amount used at any one time was $892,000,000 on July 6; on January 18, 1933, the amount so used was $355,000,000.

If section 3 were not continued in force, the Federal reserve banks probably would be obliged to sell large amounts of the United States Government securities held by them. While the committee is advised that it is not possible at this time to determine how large the sales would have to be, it appears likely that they would amount to several hundreds of millions of dollars. When the necessary operations were concluded the member banks would have practically no, or greatly reduced, excess reserves and possibly a heavier indebtedness to the Federal reserve banks.

In the judgment of the committee, it is vitally important, under conditions such as those that now prevail, that the Federal reserve banks be adequately equipped to meet any emergency that may arise. If section 2 be not renewed, the Federal reserve banks would not be in position to extend to member banks to their eligible collateral the service they have been able to render under that section during the past year. If section 3 be not extended, the reserve banks would not be in a position to relieve their member banks from the pressure resulting from increased indebtedness in case conditions were resumed or a large export movement of gold should occur. Clearly, therefore, it would be in the public interest to extend these provisions for at least a year beyond March 3, 1933.

The letter from the Federal Reserve Board, referred to above, is as follows:

EXTEND SECTIONS 2 AND 3 OF THE GLASS-STEAGALL ACT

Hon. Henry B. Steagall,
Chairman House Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: The Federal Reserve Board respectfully recommends that the legislation be enacted at this session of the Congress extending for at least one year from March 3, 1933, the authority conferred by section 10 (b) and by the second paragraph of section 16 of the Federal reserve act as amended by the act of February 7, 1932, known as the Glass-Steagall Act.

The Glass-Steagall Act amended the Federal reserve act by adding thereto section 10 (b), which authorizes the Federal reserve banks, until March 3, 1934, in exceptional and exigent circumstances and subject to the affirmative action of not less than five members of the Federal Reserve Board, to make advances to member banks which lack sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal reserve banks by the customary procedure. While demands upon the Federal reserve banks for accommodations under section 10 (b) have not been large, the existence of the authority to extend such accommodations has been a helpful factor in the disturbed situation through which we have been passing and has enabled the Federal reserve banks to render service to individual member banks in a number of instances.

The Glass-Steagall Act amended the second paragraph of section 16 of the Federal reserve act so as to provide that until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to hold United States Government securities as security for Federal reserve notes, direct obligations of the United States. This amendment provides that such authorization shall terminate on March 3, 1933, and such obligations shall be retired as security for Federal reserve notes. On May 5, 1932, the Federal Reserve Board authorized the Federal reserve banks to pledge direct obligations of the United States as collateral for Federal reserve notes and the procedure therefor was set out fully in the Federal Reserve Bulletin for the month of May, 1932, a copy of which is inclosed for your convenience. In the opinion of the board, the authority granted by section 3 of the Glass-Steagall Act has served a very useful purpose.

In this connection, it may be stated that the Federal reserve agents and the governors of the Federal reserve banks have recommended unanimously that the authority conferred by those provisions be extended for at least one year and that the Federal Advisory Council, at its meeting in Washington on November 17, 1932, adopted the following resolution:

"It is the sense of the Federal Advisory Council that Congress be asked to extend for a period of at least one year the provisions of section 10 (b) and section 3 of the Glass-Steagall bill, H. R. 920."

While the Glass-Steagall Act was under consideration in Congress the question of the advisability of limiting to March 3, 1933, the period in which the authority conferred by the second and third sections thereof could be exercised was discussed and it was pointed out that if experience should indicate the wisdom of extending the period, there would be ample time before its expiration for Congress to take the necessary action. The Federal Reserve Board feels that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the powers conferred by them, but, in any event, it is the opinion of the board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Respectfully,

EUGENE M. MEYER, Governor.
AN ACT

To improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"SEC. 10. (a) Upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

"Member banks are authorized to obligate themselves in accordance with the provisions of this section."

Sec. 2. The Federal Reserve Act, as amended, is further amended by adding, immediately after such new section 10 (a), an additional new section reading as follows:
"Sec. 10. (b) Until March 3, 1933, and in exceptional and exigent circumstances, and when any member bank, having a capital of not exceeding $5,000,000, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank: Provided, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

Sec. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinafore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: Provided, however, That until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, such collateral security, direct obligations of the United States. On March 3, 1933, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

Approved, February 27, 1932.
To improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"Sec. 10. (a) Upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

"Member banks are authorized to obligate themselves in accordance with the provisions of this section."

Sec. 2. The Federal Reserve Act, as amended, is further amended by adding, immediately after such new section 10 (a), an additional new section reading as follows:
"Sec. 10. (b) Until March 3, 1933, and in exceptional and exigent circumstances, and when any member bank, having a capital of not exceeding $5,000,000, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank: Provided, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

Sec. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: Provided, however, That until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1933, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

Approved, February 27, 1932.
January 23, 1933

EXTENSION OF GLASS-STEAGALL ACT

Memorandum Transmitted by Governor Meyer to
Chairman Steagall of the House Committee on Banking and Currency

The Glass-Steagall Act, approved on February 27, 1932, was necessitated by the greatly disturbed conditions which existed at that time, and has proved to be of great importance in enabling the Federal reserve system better to serve the public interest in a critical situation.

The Act consists of three sections: Section 1 is permanent legislation, while Sections 2 and 3 expire by limitation on March 3, 1933.

On January 9, 1933, in letters to the Chairmen of the Senate and House Committees on Banking and Currency, the Federal Reserve Board expressed the view that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority, and stated that, in any event, it is the opinion of the Board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Section 2—Loans to member banks

Section 2, which added a new section designated as 10 b, to the Federal Reserve Act, authorizes the Federal reserve banks, in exceptional and exigent circumstances, to make advances to member banks having a capital of not exceeding $5,000,000 against paper that would otherwise not be eligible for discount, in case these banks lack an adequate supply of eligible paper. The existence of this authority has made it possible for the Federal reserve banks to extend to a consider-
able number of member banks credit that was urgently needed to tide them over a difficult period and in some instances to prevent suspension. Up to January 19, loans aggregating $34,931,000 had been authorized under this section of the Act to 53 member banks, located in 8 Federal reserve districts. Of that amount, $29,369,000 had been advanced and $15,785,000 had been repaid, leaving a balance outstanding approximating $14,000,000. The Federal reserve banks should not be deprived of the ability to render this service to their member banks in the future, and it is important, therefore, that Section 2 be continued.

Section 3—Government securities as collateral

Section 3 of the Act authorizes the Federal reserve banks until March 3, 1933, to use United States Government securities as collateral for Federal reserve notes. This power has been of incalculable importance to the system during the year and its continuance for at least another year is imperative. The significance of this section and the manner in which it has operated is discussed in some detail in the following paragraphs.

Provisions concerning reserves and collateral

Under the terms of the Federal Reserve Act the Federal reserve banks are required to hold a 40 per cent reserve in gold against Federal reserve notes in actual circulation, that is, against notes which the Federal reserve banks have paid out to the public. Nothing in the Glass-Steagall Act made any change whatever in this requirement. The change related solely to the collateral which a Federal reserve bank may pledge with the Federal Reserve Agent, who is a representative of the Federal Reserve Board, as security for Federal reserve notes. The Fed-
eral reserve banks must at all times maintain with the Federal reserve agents collateral to the full value of the Federal reserve notes. This collateral prior to the passage of the Glass-Steagall Act could consist only of eligible paper, which includes member bank notes secured by United States Government securities as collateral, and gold, but by the terms of that Act United States Government obligations themselves, until March 3, 1933, can also be used as collateral.

In addition to the collateral against Federal reserve notes, the Federal reserve banks must hold a 5 per cent redemption fund in gold with the Treasurer of the United States for such notes issued as are not covered by gold with the Federal reserve agents, and a 35 per cent reserve in gold or lawful money against their deposits.

**Excess reserves and free gold**

It is these provisions of the law that underlie the calculations of the Federal reserve banks' excess reserves and of their free gold. Excess reserves are the total reserves of the reserve banks less the 40 per cent gold reserve against Federal reserve notes and the 35 per cent gold or lawful money reserve against deposits. Collateral requirements do not enter into the calculation of excess reserves. The term free gold, on the other hand, means gold held by the reserve banks that is not required either as reserves or as collateral for Federal reserve notes. The position of the reserve banks in regard to excess reserves and free gold on February 24, 1932, just prior to the passage of the Glass-Steagall Act, is shown in the table, and changes in this position for a period of years are shown on the chart.
The chart shows that with the adoption of the Glass-Steagall Act, the distinction between excess reserves and free gold lost its significance, and the entire amount of gold in excess of reserve requirements became available for use.

GOLD POSITION OF THE RESERVE BANKS ON FEBRUARY 24, 1932

(In millions)

<table>
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<tr>
<th>Description</th>
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</tr>
</thead>
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</tr>
<tr>
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<td>691</td>
</tr>
<tr>
<td>Required as note reserve</td>
<td>1,057</td>
</tr>
<tr>
<td>Total required as reserves</td>
<td>1,748</td>
</tr>
<tr>
<td>Excess reserves</td>
<td>1,392</td>
</tr>
<tr>
<td>Additional gold required as collateral for Federal</td>
<td>930</td>
</tr>
<tr>
<td>reserve notes</td>
<td></td>
</tr>
<tr>
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On February 24, 1932, the Federal reserve banks had $1,392,000,000 of excess reserves, but as they did not have a sufficient amount of eligible paper available as collateral, $930,000,000 of these excess reserves in the form of gold had to be pledged as collateral against Federal reserve notes, in addition to $46,000,000 required for the redemption fund, with the consequence that the gold not needed for these purposes amounted to $416,000,000. This amount could have been increased somewhat by reducing the volume of Federal reserve notes held by the Federal reserve banks in their own vaults, but even after that volume was reduced to the minimum required as an operating matter, the free gold would have been only $542,000,000. This situation arose out of the fact that during the preceding year there had been a large demand for currency by the public, due chiefly to hoarding, and in addition a large export of gold, both of which had exerted a heavy pressure on member banks. In order to assist these banks in meeting the demands upon them without increasing unduly their indebtedness to the reserve banks, the Federal reserve system had purchased a considerable volume of United States Government securities, in addition to amounts purchased earlier during the depression, so that on February 24, 1932 the reserve banks held $750,000,000 of United States Government securities; since these securities were not eligible as collateral against Federal reserve notes, the reserve banks were obliged to use a large amount of gold for collateral purposes.

The outlook in February, 1932

In February the situation was further complicated by the fact that, notwithstanding the large withdrawals of foreign funds which had
occurred in the autumn of 1931, foreign central banks still had a large volume of short-term balances in this country, which were subject to withdrawal on demand and which the Federal reserve system had reason to believe would be withdrawn in large part in the course of a few months. The system, therefore, was faced with this situation: business activity had declined at a rapid rate since 1929; commodity prices were falling; there was a large and increasing volume of unemployment. This condition was aggravated by the fact that a large number of banks were failing; that a hoarding movement of currency was in progress and was making the position of the member banks even more difficult; that bank credit was contracting at a rapid rate, and that the banks were subject to additional large demands for gold from abroad.

The Federal reserve system was convinced that it would not be in the public interest in the then existing circumstances to permit the movement of currency into hoards and of gold to foreign countries to increase the burden of debt on the member banks. If the banks had to incur additional debt they would tend further to restrict their accommodation to business and agriculture, and such an attitude at that time would have further aggravated the situation, with the consequence that the deflationary cycle would proceed still further and that the entire financial mechanism of the country would be subjected to greater pressure.

Need for Glass-Steagall Act

At the disposal of the Federal reserve banks for the purpose of helping member banks to meet such further demands as might be made upon them without forcing them to borrow, there was available prior to the
passage of the Glass-Steagall Act $400,000,000 or $500,000,000 of free
gold held by the reserve banks. This amount of gold was less than
one-half of the short-term balances held by foreign banks in this coun-
try at the time. In these circumstances, the Federal reserve system
felt that it was its duty to request the Congress of the United States
to authorize the reserve banks to use United States Government securi-
ties as collateral for Federal reserve notes in order to set free gold
held for that purpose over and above the 40 per cent reserve required
by law.

**Policy made possible by the Act**

On February 27, by the adoption of the Glass-Steagall Act, the
Federal Reserve Board was granted for one year the power to permit the
use of United States Government securities as collateral against Feder-
al reserve notes. Having received this authority, the Federal reserve
banks felt that they could with safety pursue the policy that in the
circumstances was clearly in the public interest, namely, to adopt a
program of large-scale purchases of United States Government securities.
These purchases enabled the member banks to meet the demands upon them
and at the same time to reduce their indebtedness to the reserve banks.
Between February 27 and July 20, 1932, the Federal reserve banks bought
$1,100,000,000 of Government securities. The larger part of the funds
arising from these purchases was used by the member banks to meet a de-
mand for $140,000,000 of currency and for $400,000,000 of gold for ex-
port, and to reduce their borrowings from the Federal reserve banks by
$300,000,000. Notwithstanding the heavy internal and external drains
of currency and gold, there was a decline in open-market rates for money
and an easier condition prevailed in the money market.

In administering its authority under Section 3 of the Glass-Steagall Act the Federal Reserve Board adopted the rule of permitting the pledging of United States securities as collateral only to the extent necessary to enable the system to pursue its credit policy and at the same time to maintain an adequate operating margin at the Federal reserve banks. The requirements of the Board in this matter were described on pages 286 and 287 of the Federal Reserve Bulletin for May, 1932, as follows:

"In determining upon a formula derived from these considerations the Board decided that in existing circumstances when the margin between (1) total cash reserves of the reserve banks (in excess of the 35 per cent against deposits) plus eligible paper at the 12 Federal reserve banks, and (2) Federal reserve notes in actual circulation shall fall below $400,000,000, the reserve banks shall be authorized to pledge a sufficient amount of United States Government securities with the Federal reserve agents to release enough gold to bring this margin up to the $400,000,000 level.

"This margin of $400,000,000 is considered adequate to provide for (1) enough Federal reserve notes in the vaults of the reserve banks and branches to meet necessary operating requirements, (2) the redemption fund with the United States Treasury, (3) a reasonable margin above the required 35 per cent reserve against deposits, and (4) a slight margin above the necessary collateral requirements against Federal reserve notes.

"In adopting $400,000,000 as the operating margin for the 12 Fed-
eral reserve banks combined, the Federal Reserve Board has notified each
bank of the amount that would be a reasonable margin for that bank, in
proportion to its requirements and its volume of operations. In prac-
tice, this decision of the Federal Reserve Board will mean that when-
ever a Federal reserve bank shall find, after having pledged its avail-
able eligible paper, that its operating margin has fallen below the
amount determined for that bank, it may pledge with its Federal reserve
agent enough United States securities to release an amount of gold that
will bring the margin up to the specified amount."

Securities were first pledged on May 5, 1932; the maximum amount
of $682,000,000 was pledged on July 6; on January 18, 1933, the amount
so pledged was $355,000,000.

Effects of this policy

It is impossible to say to what extent subsequent developments were
influenced by Federal reserve credit policy made possible by the Glass-
Steagall Act. The fact is, however, that the decline in member bank
credit, which had been at a rapid rate since the autumn of 1930, was ar-
rested in the summer of 1932, and beginning in the autumn there was a
sustained increase in industrial production and factory employment.
After the middle of July conditions in the banking situation improved
further: during the following six months there was a gain of
$600,000,000 in gold from abroad and $145,000,000 of currency was re-
turned from hoarding, so that the member banks were able to reduce their
indebtedness further by $290,000,000, and to build up with the reserve
banks a volume of reserves about $600,000,000 in excess of legal re-
quirements. Money rates in the open market declined to low levels,
rates charged to commercial customers also declined, and there was a distinct improvement in the bond market.

Large excess reserves are usual at times of depression, when current financial requirements are reduced. At such times in previous periods of depression the existence of a considerable volume of excess reserves in the hands of commercial banks, which are under constant pressure to use these idle funds, has been a factor in business recovery. Consequently, the Federal reserve system between August 10, 1932 and January 11, 1933, maintained the volume of its security holdings at a constant level so that funds arising from the return flow of currency and from the inflow of gold accumulated as reserves of member banks.

On January 5, following a meeting of the open-market policy conference in Washington, the Federal Reserve Board issued the following statement in the press for publication on January 6.

"The Open Market Policy Conference of the Federal Reserve System, with representatives from all of the twelve Federal reserve banks in attendance, concluded its meetings with the Federal Reserve Board today. The sessions of the Conference were devoted to a review of economic, business, financial, and banking conditions in each of the twelve Federal reserve districts and to the economic and financial situation in the country as a whole. Particular reference was made in the discussions to the workings and effects of the open market policy thus far pursued by the Federal Reserve System during the course of the economic depression. Consideration was also given to the attitude of the System in adjusting its operations to conditions and needs as they may change and develop.

"The first and immediate objective of the open market policy was to
contribute factors of safety and stability in meeting the forces of deflation. The larger objectives of the System's open market policy, to assist and accelerate the forces of economic recovery, are now assuming importance.

"With this purpose in mind, the Conference has decided that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves, the continuance of which is deemed desirable in present conditions. Adjustments in the System's holdings in the open market account will be in accordance with this policy."

**Effects of failure to continue Section 3**

On January 18 the Federal reserve banks had excess reserves of $1,443,000,000, but owing to the fact that their holdings of discounts and acceptances eligible as collateral for Federal reserve notes were relatively small, they would have a deficiency of $188,000,000 in collateral, if they did not have the authority to pledge United States Government securities. This deficiency might be reduced somewhat through a reduction to a minimum of the amount of Federal reserve notes held as vault cash by the reserve banks, but the Federal reserve banks would still be obliged to sell United States Government securities. It is not possible to determine how large the sales would have to be, but they would have to amount to several hundreds of millions of dollars. When the necessary operations were concluded the member banks would have practically no, or greatly reduced, excess reserves and possibly a heavier indebtedness to the reserve banks. This would constitute a radical reversal of Federal reserve policy caused not by changes
in conditions but by a statutory requirement. The pressure on the mem-
ber banks exerted by excess reserves in the direction of greater activi-
ty would be lifted and a pressure toward contraction would be exerted by
increased indebtedness. As a consequence, the banks would be more re-
luctant to lend money to business or to make investments. That this
change would greatly retard business recovery is beyond question.

From this analysis it is apparent that the enactment of Section 3
of the Glass-Steagall Act in February, 1932, was essential in the public
interest; that the policy made possible to the Federal reserve system by
this Act has been a factor of incalculable importance in arresting the
progressive demoralization of economic conditions, and that the discon-
tinuance of this section at the present time would have deflationary ef-
fects by tending to contract credit and would impede the process of
economic recovery.

Benefits that have resulted or may result from Sections 2 and 3 of
the Glass-Steagall Act cannot be measured by statistics alone. The
country is still going through a difficult and trying period, and the
existence of the authority granted by these sections has been and will
continue to be an influence toward the restoration of confidence, which
is so important for economic recovery. Furthermore, it is vitally im-
portant, under conditions such as those that now prevail, that the Fed-
eral reserve system be adequately equipped to meet any emergency that
may arise. If Section 2 of the Glass-Steagall Act be not renewed, the
Federal reserve banks would not be in a position to extend to member
banks that may have exhausted their eligible collateral the service they
have been able to render under that section during the past year. If Section 3 be not extended, they would not be in a position to relieve their member banks from the pressure resulting from increased indebtedness in case domestic hoarding were resumed or a large export movement of gold should occur. Clearly, therefore, it would be in the public interest to extend these provisions for at least a year beyond March 3, 1933.
EXTENSION OF GLASS-STEAGALL ACT

The Glass-Steagall Act, approved on February 27, 1932, was necessitated by the greatly disturbed conditions which existed at that time, and has proved to be of great importance in enabling the Federal reserve system better to serve the public interest in a critical situation.

The Act consists of three sections: Section 1 is permanent legislation, while Sections 2 and 3 expire by limitation on March 3, 1933. On January 9, 1933, in letters to the Chairman of the Senate and House Committees on Banking and Currency, the Federal Reserve Board expressed the view that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority, and stated that, in any event, it is the opinion of the Board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Section 2--Loans to member banks

Section 2, which added a new section designated as 10 b, to the Federal Reserve Act, authorizes the Federal reserve banks, in exceptional and exigent circumstances, to make advances to member banks having a capital of not exceeding $5,000,000 against paper that would otherwise not be eligible for discount, in case these banks lack an adequate supply of eligible paper. The existence of this authority has made it possible for the Federal reserve banks to extend to a considerable number of member banks credit that was urgently needed to tide them over a difficult period and in some instances to prevent suspension.
Up to January 19, loans aggregating $34,931,000 had been authorized under this section of the Act to 53 member banks, located in 6 Federal reserve districts. Of that amount, $29,369,000 had been advanced and $15,785,000 had been repaid, leaving a balance outstanding approximating $14,000,000. The Federal reserve banks should not be deprived of the ability to render this service to their member banks in the future, and it is important, therefore, that Section 2 be continued.

Section 2--Government securities as collateral

Section 2 of the Act authorizes the Federal reserve banks until March 3, 1935, to use United States Government securities as collateral for Federal reserve notes. This power has been of incalculable importance to the system during the year and its continuance for at least another year is imperative. The significance of this section and the manner in which it has operated is discussed in some detail in the following paragraphs.

Provisions concerning reserves and collateral

Under the terms of the Federal Reserve Act the Federal reserve banks are required to hold a 40 per cent reserve in gold against Federal reserve notes in actual circulation, that is, against notes which the Federal reserve banks have paid out to the public. Nothing in the Glass-Steagall Act made any change whatever in this requirement. The change related solely to the collateral under which a Federal reserve bank may pledge with the Federal Reserve Agent, who is a representative of the Federal Reserve Board, as security for Federal reserve notes. The Federal reserve banks must at all times maintain with the Federal reserve agents collateral to the full value of the Federal reserve notes. This
collateral prior to the passage of the Glass-Steagall Act could consist only of eligible paper, which includes member bank notes secured by United States Government securities, as collateral, and gold, but by the terms of that Act United States Government obligations themselves, until March 3, 1933, can also be used as collateral.

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**Excess reserves and free gold**

It is these provisions of the law that underlie the calculations of the Federal reserve banks' excess reserves and of their free gold. Excess reserves are the total reserves of the reserve banks less the 40 per cent gold reserve against Federal reserve notes and the 35 per cent gold or lawful money reserve against deposits. Collateral requirements do not enter into the calculation of excess reserves. The term free gold, on the other hand, means gold held by the reserve banks that is not required either as reserves or as collateral for Federal reserve notes. The position of the reserve banks in regard to excess reserves and free gold on February 24, 1932, just prior to the passage of the Glass-Steagall Act, is shown in the table, and changes in this position for a period of years are shown on the chart.

The chart shows that with the adoption of the Glass-Steagall Act, the distinction between excess reserves and free gold lost its significance, and the entire amount of gold in excess of reserve requirements became available for use.
GOLD POSITION OF THE RESERVE BANKS ON FEBRUARY 24, 1932

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The outlook in February 1932

In February the situation was further complicated by the fact that, notwithstanding the large withdrawals of foreign funds
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Need for Glass-Steagall Act

At the disposal of the Federal reserve banks for the purpose of helping member banks to meet such further demands as might be made upon
them without forcing them to borrow, there was available prior to the
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that it was its duty to request the Congress of the United States to
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for that purpose over and above the 40 per cent reserve required by law.

Policy made possible by the Act

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Securities were first pledged on May 5, 1932; the maximum amount of $682,000,000 was pledged on July 6; on January 18, 1933, the amount so pledged was $355,000,000.

Effects of this policy

It is impossible to say to what extent subsequent developments were influenced by Federal reserve credit policy made possible by the Glass-Steagall Act. The fact is, however, that the decline in member bank credit, which had been at a rapid rate since the autumn of 1930, was arrested in the summer of 1932, and beginning in the autumn there was a sustained increase in industrial production and factory employment.

After the middle of July conditions in the banking situation improved further: during the following six months there was a gain of $600,000,000 in gold from abroad and $145,000,000 of currency was returned from hoarding, so that the member banks were able to reduce their indebtedness further by $390,000,000, and to build up with the reserve banks a volume of reserves about $600,000,000 in excess of legal requirements. Money rates in the open market declined to low levels, rates charged to commercial customers also declined, and there was a distinct improvement
in the capital market.

Large excess reserves are usual at times of depression, when current financial requirements are reduced. At such times in previous periods of depression the existence of a considerable volume of excess reserves in the
hands of commercial banks, which are under constant pressure to use these idle funds, has been a factor in business recovery. Consequently the Federal reserve system between August 10, 1932 and January 11, 1933, maintained the volume of its security holdings at a constant level so that funds arising from the return flow of currency and from the inflow of gold accumulated as reserves of member banks. On January 5, following a meeting of the open-market policy conference in Washington, the Federal Reserve Board issued the following statement to the press for publication on January 6.

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"The first and immediate objective of the open market policy was to contribute factors of safety and stability in meeting the forces of deflation. The larger objectives of the System's open market policy,
to assist and accelerate the forces of economic recovery, are now assuming importance.

"With this purpose in mind, the Conference has decided that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves, the continuance of which is deemed desirable in present conditions. Adjustments in the System's holdings in the open market account will be in accordance with this policy."

Effects of failure to continue Section 2

On January 18 the Federal reserve banks had excess reserves of $1,443,000,-
000, but owing to the fact that their holdings of discounts and acceptances eligible as collateral for Federal reserve notes were relatively small, they would have a deficiency of $188,000,000 in collateral, if they did not have the authority to pledge United States Government securities. This deficiency might be reduced somewhat through a reduction to a minimum of the amount of Federal reserve notes held as vault cash by the reserve banks, but the Federal reserve banks would still be obliged to sell United States Government securities.

It is not possible to determine how large the sales would have to be, but they would have to amount to several hundreds of millions of dollars. When the necessary operations were concluded the member banks would have practically no, or greatly reduced, excess reserves and possibly a heavier indebtedness to the reserve banks. This would constitute a radical reversal of Federal reserve policy caused not by changes in conditions but by a statutory requirement. The pressure on the member banks exerted by excess reserves in the direction of greater activity would be lifted and a pressure toward contraction would be exerted by increased indebtedness. As a consequence, the banks would be more
reluctant to lend money to business or to make investments. That this change would greatly retard business recovery is beyond question.

From this analysis it is apparent that the enactment of Section 3 of the Glass-Steagall Act in February, 1932, was essential in the public interest; that the policy made possible to the Federal reserve system by this Act has been a factor of incalculable importance in arresting the progressive demoralization of economic conditions, and that the discontinuance of this section at the present time would have deflationary effects by tending to contract credit and would impede the process of economic recovery.

Benefits that have resulted or may result from Sections 2 and 3 of the Glass-Steagall Act cannot be measured by statistics alone. The country is still going through a difficult and trying period, and the existence of the authority granted by these sections has been and will continue to be an influence toward the restoration of confidence, which is so important for economic recovery. Furthermore, it is vitally important, under conditions such as those that now prevail, that the Federal reserve system be adequately equipped to meet any emergency that may arise. If Section 2 of the Glass-Steagall Act be not renewed, the Federal reserve banks would not be in a position to extend to member banks that may have exhausted their eligible collateral the service they have been able to render under that section during the past year. If Section 3 be not extended, they would not be in a position to relieve their member banks from the pressure resulting from increased indebtedness in case domestic hoarding were resumed or a large export movement of gold should occur. Clearly, therefore, it would be in the public interest to extend these provisions for at least a year beyond March 3, 1933.
Extension of Sections 2 and 3 of the Glass-Steagall Act.

January 27, 1933 — Ordered to be printed.

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

REPORT

(To accompany H. R. 14,252)

The Committee on Banking and Currency, to whom was referred the bill H. R. 14,252 "to extend the time during which certain provisions of the Act of February 27, 1932, relating to improving the facilities of the Federal reserve system to meet the needs of member banks in exceptional circumstances, shall be effective", having considered the same, report favorably thereon with the recommendation that the bill do pass.

The only change which the bill will make in existing law is to extend until March 3, 1934, the provisions of sections 2 and 3 of the Glass-Steagall Act approved February 27, 1932. That Act consists of three sections: Section 1 is permanent legislation, while sections 2 and 3 expire by limitation on March 3, 1933. On January 9, 1933, in letters to the Chairmen of the Senate and House Committees on Banking and Currency, the Federal Reserve Board expressed the view that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority, and stated that, in any event, it is the opinion of the Board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.
Section 2 of the Glass-Steagall Act, which added a new section designated as 10 b, to the Federal Reserve Act, authorizes the Federal reserve banks, in exceptional and exigent circumstances, to make advances to member banks having a capital of not exceeding $5,000,000 against paper that would otherwise not be eligible for discount, in case these banks lack an adequate supply of eligible paper. The existence of this authority has made it possible for the Federal reserve banks to extend to a considerable number of member banks credit that was urgently needed to tide them over a difficult period and in some instances to prevent suspension. The Committee feels that the Federal reserve banks should not be deprived of the ability to render this service to their member banks, and it is important, therefore, that section 2 be continued.

Under section 3 of the Glass-Steagall Act, the Federal Reserve Board was granted for one year the power to permit the use of United States Government securities as collateral against Federal reserve notes. Having received this authority, the Federal reserve banks were in a position, through the purchase of United States Government securities, to enable member banks to meet the demands upon them arising from gold exports and currency withdrawals and at the same time to reduce their indebtedness to the reserve banks. Between February 27 and July 20, 1932, the Federal reserve banks bought $1,100,000,000 of Government securities.
In administering its authority under Section 3 of the Glass-Steagall Act the Federal Reserve Board authorized the pledging of United States securities as collateral only to the extent necessary to enable the system to pursue its credit policy and at the same time to maintain at the Federal reserve banks a sufficient supply of Federal reserve notes for operating purposes. The requirements of the Board in this matter were described on pages 286 and 287 of the Federal Reserve Bulletin for May, 1932.

Securities were first pledged on May 5, 1932; the largest amount used as collateral at any one time was $682,000,000 on July 6; on January 18, 1933, the amount so used was $355,000,000.

If section 3 were not continued in force, the Federal reserve banks probably would be obliged to sell large amounts of the United States Government securities held by them. While the Committee is advised that it is not possible at this time to determine how large the sales would have to be, it appears likely that they would amount to several hundreds of millions of dollars. When the necessary operations were concluded the member banks would have practically no, or greatly reduced, excess reserves and possibly a heavier indebtedness to the reserve banks. The pressure on the member banks exerted by excess reserves in the direction of greater activity would be lifted and a pressure toward contraction would be exerted by increased indebtedness. As a consequence, the banks would be more reluctant to lend money to business or to make investments. That this change would greatly retard business recovery is beyond question.
In the judgment of the Committee, it is vitally important under conditions such as those that now prevail, that the Federal reserve banks be adequately equipped to meet any emergency that may arise. If section 2 be not renewed, the Federal reserve banks would not be in a position to extend to member banks that may have exhausted their eligible collateral the service they have been able to render under that section during the past year. If section 3 be not extended, they would not be in a position to relieve their member banks from the pressure resulting from increased indebtedness in case domestic hoarding were resumed or a large export movement of gold should occur. Clearly, therefore, it would be in the public interest to extend these provisions for at least a year beyond March 3, 1933.

The letter from the Federal Reserve Board, referred to above, is as follows: