The Papers of Eugene Meyer (mss52019)

119_03_001-	Subject File, Federal Reserve Board, Office Correspondence, 1931

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
OFFICE CORRESPONDENCE

1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date March 2, 1931.

To All members of the Board

Subject:

From Mr. McClelland

2—8495

At the meeting of the Board today there was ordered circulated the attached memorandum, dated February 27th, from the Board's General Counsel, with regard to the condition of membership limiting the purchase of bank stocks by member banks.

For the further information of the members of the Board, there is also attached copy of a memorandum dated September 30, 1930 from the Assistant Secretary setting forth the statements adopted at the fall conference of Governors and Federal Reserve agents with regard to the proposed revision of this condition of membership.

At the meeting of the Board on September 30th the question of revision of the condition was discussed in the light of the statements adopted by the Governors and Federal Reserve agents, and in accordance with the recommendation of the Agents Conference, it was voted to hold the matter in abeyance.

Governor Meyer
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Pole

Please circulate promptly and return to the Secretary's office.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 27, 1931.

To Mr. Hamlin

From Mr. Wyatt - General Counsel

Subject: Information re condition of membership limiting purchase of bank stocks.

docket circ

GPO 2—8495

Dear Mr. Hamlin:

In accordance with your request, I respectfully submit herewith the following on the above subject:

1. A draft of a resolution prescribing a uniform policy for the Federal Reserve Board with respect to granting State member banks permission to purchase stock in other banks. (As requested, this resolution is drawn in alternative form, so as to establish a uniform policy of either, (a) granting permission to purchase an amount not exceeding 20 per cent. of the total stock of the bank whose stock is purchased, or (b) granting such permission unless, in the judgment of the Federal Reserve Board, the purchase of such stock will endanger the solvency of either the purchasing bank or the bank whose stock is purchased);

2. A copy of a memorandum addressed by Mr. McClelland to Governor Meyer under date of February 20, 1931, reciting the history of the negotiations between the Federal Reserve Board and the Peoples Pittsburgh Trust Company pertaining to this condition of membership;

3. A copy of a letter on this subject addressed to the said bank under date of April 5, 1920, which summarizes the Board's past policies with respect to prescribing such conditions of membership;

4. A copy of an opinion rendered by Mr. Vest under date of February 9, 1929, with respect to the Board's power to prescribe such conditions of membership; and

5. A copy of the opinion rendered by the Attorney General on February 18, 1928 with the portions affecting this general subject marked with a red pencil. (See pages 5 and 6).

I trust that this will give you all the information you desire on this subject.

Respectfully,

Walter Wyatt

Walter Wyatt,
General Counsel

Ordered Circulated

AT EXECUTIVE COMMITTEE MEETING

MAR 2 1931

WHEREAS, the Federal Reserve Board prescribed for certain State banks and trust companies admitted to membership in the Federal Reserve System prior to April 7, 1924, a condition of membership to the effect that such banks should not, without first obtaining the approval of the Federal Reserve Board, "directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent. of the capital stock of such other bank, nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it, nor make any arrangement to acquire such an interest";

WHEREAS, the Federal Reserve Board prescribed the following condition of membership for all State banks and trust companies admitted to membership in the Federal Reserve System between April 7, 1924, and January 3, 1928:

> "Such bank or trust company except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

WHEREAS, the Board has prescribed the following condition of membership for all State banks and trust companies admitted to membership in the Federal Reserve System since January 3, 1928:

> "Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company

shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

WHEREAS, it is desirable that the Federal Reserve Board have a uniform policy with respect to the administration and enforcement of the above conditions of membership and to the granting of permits thereunder;

NOW, THEREFORE, BE IT RESOLVED by the Federal Reserve Board, that, whenever any State bank or trust company subject to one of the above conditions of membership applies for the permission of the Federal Reserve Board to purchase or acquire stock in any other bank or trust company before actually purchasing or acquiring such stock, the Federal Reserve Board will grant it permission to purchase such stock in an amount not exceeding twenty per cent. of the total amount of stock of such other bank or trust company outstanding on the date of the application.

(Alternative draft of the last clause of above resolution)

NOW, THEREFORE, BE IT RESOLVED by the Federal Reserve Board that, whenever any State bank or trust company which is subject to any one of the above conditions of membership applies to the Federal Reserve Board for permission to purchase stock in any other bank or trust company before actually purchasing or acquiring such stock, the Federal Reserve Board will grant such permission, unless, in the judgment of the Federal Reserve Board, the purchase of such stock will endanger the solvency of either the purchasing bank or the bank whose stock is purchased.

COPY

To-Governor Meyer February 20, 1931.

From- Mr. McClelland.

On January 25, 1929, Mr. A. C. Robinson, President of the Peoples Savings and Trust Company, Pittsburgh, Pennsylvania, which institution later consolidated with the Pittsburgh Trust Company to form the Peoples-Pittsburgh Trust Company, wrote to the Federal Reserve Agent at Cleveland in connection with an application which had been filed by the Peoples Savings and Trust Company for membership in the Federal Reserve System. In this letter he called attention to the condition of membership regularly imposed by the Board regarding the purchase of bank stocks by member banks, and stated in part as follows:

> "As you know, the Peoples Savings and Trust Company has acquired interests in other banks in the City of Pittsburgh and its immediate vicinity. The policy of our Company has not been to acquire stocks of other banks for the purpose of creating a chain of banking institutions monopolizing business in a great territory, but simply to expand our own business and to protect that already acquired, by securing control of other banks located in various adjoining sections which are really civic centers in themselves.
>
> "If the limitations implied in the regulation quoted are to be strictly enforced, it is obvious that no additional banks can be acquired, because the very delay and publicity involved would prevent the consummation of the purchase of sufficient stock to make it worth our while. We have no such expansion in mind at the present time, but an opportunity might arise.
>
> "I therefore am writing you this letter with the request that you ascertain from the Federal Reserve Board whether membership in the Federal Reserve System can be permitted our institution with the understanding that the condition named above shall be effective with reservation to us of the right to acquire an interest in other banks and trust companies as fully as we are permitted by the laws of the Commonwealth of Pennsylvania under which we are incorporated."

In a letter to the Board on January 28, transmitting Mr. Robinson's letter the Federal Reserve Agent at Cleveland stated that he was familiar with practices followed by the applicant bank in acquiring control in banking institutions in the Pittsburgh District, and felt the action of the bank had not only been profitable to it but had tended to improve materially the banking practices of the institutions in which this bank owned stock. He urged "if possible, that some plan be evolved whereby there can be compliance with the request made by Mr.

Robinson, as I feel that it would be extremely unfortunate if this bank fails to become a member on this account." A memorandum in the files from the Board's Committee on Examination quotes the Chairman of the Cleveland bank as saying that the applicant bank is one of the largest and best managed state banks in the Fourth District which is not a member of the System, andas strongly recommending its admission even if necessary to waive the usual condition of membership.

There is in the files a memorandum from Counsel stating that while the Board might, if it wished to do so, waive the condition of membership, if that action were taken, the Peoples Savings and Trust Company would have an advantage over state banks and trust companies admitted to the System subject to the condition, of which there are several in Pennsylvania. After considerable discussion at meetings of the Board the application was finally approved on March 1, 1929, subject to the regular conditions of membership contained in the Board's Regulation "H," Series of 1928, the bank being advised that after careful consideration, the Federal Reserve Board did not feel that it could waive the particular condition referred to above.

Under date of April 1, 1929, Mr. Robinson wrote the Board inquiring whether this condition of membership applies equally to all member banks of the Federal Reserve System. A copy of the Board's reply to Mr. Robinson's letter dated April 5, 1929, is attached.

On April 17, 1929, a letter was received from the Vice President of the Peoples Savings and Trust Company advising that the directors of the bank had given the conditions of membership consideration and had agreed to conform to the regulations and conditions required for membership. The bank was formally admitted to membership on April 22, 1929.

Under date of September 14, 1929, the Peoples Savings and Trust Company and the Pittsburgh Trust Company merged under the name of the Peoples-

Pittsburgh Trust Company, under a Pennsylvania statute providing that the consolidated corporation should possess in perpetuity all the rights, privileges, franchises and properties theretofore vested in or belonging to each of the corporations. The condition in question was not imposed upon the Pittsburgh Trust Company, but the Board's Counsel has held that where two banks consolidate under the Pennsylvania statute, the new institution is subject to all conditions imposed on the consolidating banks at the time of the merger.

All the other facts in connection with the bank's application for approval of the purchase of stock in the First National Bank of Wilkinsburg are contained in the attached memorandum which has already been brought to your attention.

April ~~4~~ 5, 1929.

Mr. A. C. Robinson, President,
Peoples Savings and Trust Company,
Pittsburgh, Pennsylvania.

Dear Sir:

I have your letter of April 1 inquiring whether the following condition of membership applies to all member banks of the Federal reserve system:

"Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

This particular condition of membership in the form quoted was incorporated into the Regulations of the Federal Reserve Board, Series of 1928, which became effective January 3, 1928, and it has been imposed on every State bank or trust company which has been admitted to the Federal reserve system since that time.

In the Board's amended Regulation H of 1924, effective April 7, 1924, the following condition was prescribed as one to be imposed on State banks and trust companies becoming members of the Federal reserve system:

X "Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such

GBV

an interest."

This condition of membership was imposed on all State banks and trust companies which were admitted to the Federal reserve system between April 7, 1924 and January 3, 1928.

Prior to April 7, 1924, a condition of membership providing substantially that a bank subject thereto should not, without first obtaining the approval of the Federal Reserve Board, "directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank, nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it, nor make any arrangement to acquire such an interest," was imposed for special reasons on a limited number of State banks or trust companies which were admitted to the system.

Other banks and trust companies which are members of the Federal reserve system, not included in one of the classes of banks mentioned above, are not subject to the condition of membership to which you refer or to a substantially similar condition.

I trust that this gives you the information which you desire.

Very truly yours,

J. C. Noell,
Assistant Secretary.

GBV

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date March 9, 1931

To Governor Meyer

Subject:

From Mr. McClelland

2—8495

There is attached hereto, for your information, copy of a memorandum prepared in the Board's Division of Research and Statistics, giving summaries of recommendations of changes in the banking law, made by Mr. Pole, Mr. Broderick, Mr. Roosevelt's Banking Commission, and Mr. Warburg.

RECOMMENDATIONS OF THE COMPTROLLER OF THE CURRENCY, ANNUAL REPORT, 1930

I. Group and Chain Banking

No national bank should be permitted to become a part of a group banking system, except on the condition that all other banks in the group are national banks; and when a State member bank of the Federal reserve system is a part of a group, the Federal Government should be given visitorial powers over the entire group. More specifically:

(a) No corporation should be permitted to own a majority of the stock of a national bank if it owns at the same time a majority of the stock of a State bank.

(b) The Comptroller of the Currency should be given visitorial power over any corporation owning a majority of the stock of a national bank.

(c) No national bank should be permitted to make a loan on the security of the stock of a corporation owning a majority of the stock of the lending bank.

II. Branch Banking

A. The McFadden Act should be amended to permit national banks in important commercial and financial centers to establish branches in the area that is economically and financially tributary to such centers without regard to State boundaries or to State banking laws. The privilege should be limited to banks in cities serving a territory sufficient to provide economic diversification. The trade area within which banks located in such cities may extend their branches should be defined by a committee consisting of the Comptroller of the Currency, the Secretary of the Treasury, and the Governor of the Federal Reserve Board. Banks permitted to have branches in a trade area should have a minimum capital of $1,000,000 and the extension of branches should be subject to the approval of the Comptroller of the Currency.

B. The National Bank Consolidation Act should be amended to permit any bank within the trade area to consolidate under national charter with the approval of the Comptroller of the Currency.

III. Affiliates

A. The Comptroller of the Currency should have authority to examine security or investment companies affiliated with national banks.

IV. Fiduciary Powers

A. The law should be amended to provide that the exercise of fiduciary powers shall be one of the corporate powers of a national banking association, subject to the existing limitations regarding State laws now contained in the Federal Reserve Act.

V. Liquidation of National Banks

A. The Comptroller of the Currency should be given supervision of national banks going into voluntary liquidation and the liquidating agent should be required to give bond and render reports to the Comptroller of the Currency in the same manner as the receiver of an insolvent bank.

VI. Circulating False Reports

A. It should be made a crime to maliciously make or circulate any false report concerning a national bank, or a member of the Federal reserve system, which imputes insolvency or unsound financial condition.

VII. Banks in the District of Columbia

A. Certain recommendations are included regarding changes in the laws governing banks in the District of Columbia

RECOMMENDATIONS OF THE NEW YORK SUPERINTENDENT OF BANKS, MR. JOSEPH A. BRODERICK, IN HIS ANNUAL REPORT, RELEASED JANUARY 7, 1931.

I. Supervision

A. Permit the Superintendent of Banks in his discretion to omit one examination a year of a bank or trust company which is a member of the New York Clearing House Association and accept in lieu thereof the report of the Clearing House examination made during the year.

B. Require the directors of a banking institution to examine it at least every six months, such examinations to include a complete review by each director of all loans and investments in excess of one-tenth of 1 per cent of the capital and surplus of the institution. At least once in every two years this examination to include a complete verification of the bank's deposit liabilities.

II. Officers and Directors

A. Permit the Superintendent of Banks to remove officers and directors of banking institutions who have persistently violated the banking laws or who have been guilty of continuance of unsafe or unsound banking policies.

B. Prohibit any officer or employee of a bank to borrow from or otherwise become directly or indirectly obligated to the institution by which he is employed.

C. Prohibit any officer of a bank from becoming an officer of any company engaged primarily in the purchase or sale of securities.

D. Require a director of a banking institution who is directly or indirectly obligated on any loan made by such institution either to him or to others to file once a year with the bank, and at such other times as the Superintendent of Banks may require, a statement of his financial condition.

E. Require banks to render each year to stockholders a report of the attendance of directors at meetings held during the year.

III. Chain, Group, and Branch Banking

A. Permit the Superintendent of Banks to examine any corporation owning 10 per cent or more of the capital stock of any corporation organized under the banking laws.

B. Require any holding company owning stock in a banking institution to maintain reserves or to furnish a surety bond to protect the double liability attaching to such stock.

C. Permit savings banks, with the approval of the Superintendent of Banks, to establish deposit and withdrawal stations in the county in which the principal office is located, and to move to another place within a county branch offices acquired by a merger with other savings banks.

IV. Affiliates

A. No banking institution should be permitted to invest more than 10 per cent of its capital and surplus in the stock or obligations of an affiliate or its subsidiaries, or to extend to an affiliate a loan of over this amount or to lend more than this on security of shares or obligations of an affiliate.

B. The stock of all banks subject to the department of banking should be evidenced by individual certificates of stock which shall not be coupled with the stock of any other corporation. All such arrangements now obtaining should terminate within two years.

V. Mergers

A. Permit prompt mergers of banking institutions in emergency without a vote of the stockholders and without the usual two weeks notice. This should be possible only with the approval of the Superintendent of Banks and on his declaration that the merger is necessary to prevent the closing of one of the institutions.

VI. Reserve Requirements

A. Require banks and trust companies to maintain reserves against time deposits.

B. Forbid deduction of foreign exchange balances in computing net demand deposits subject to reserves.

VII. Investments

A. Limit the aggregate amount a banking institution may invest in stocks and bonds of other corporations.

B. Permit the Superintendent of Banks at the expense of banking institutions, including savings banks, to order an appraisal of real estate owned or mortgaged to the bank by an independent impartial appraiser of recognized standing.

VIII. Segregation of Accounts

A. Require segregation of thrift accounts in commercial banks in cities over 75,000 and place a restriction on the investment of such thrift funds.

IX. Bankers Balances

A. Limit the funds a banking institution may deposit in any other bank, distinguishing deposits in designated reserve depositaries, in domestic institutions not acting as reserve agents, and in foreign banking institutions.

X. Private Bankers

A. Require a periodic audit of the deposit liabilities of private bankers by an independent auditor.

B. Require private bankers to discontinue accepting deposits by June 30, 1931 and to liquidate their deposit liabilities by December 31, 1931.

PRINCIPAL RECOMMENDATIONS MADE BY GOVERNOR ROOSEVELT'S BANKING COMMISSION (GEORGE W. DAVISON, CHAIRMAN); JANUARY 29, 1930.

I. Supervision

The Banking Department should be kept out of politics. It should also be enlarged and reorganized and salaries should be raised--e.g., the salary of the Superintendent should be raised from $12,000 to $15,000, he should have an assistant at $12,500, and the next six members of his department--all to be under civil service--should get $12,000 each.

The Banking Department should be given more extensive powers relative to the examination of such private banks as make a practice of accepting deposits.

The Banking Superintendent should be given a limited authority to examine affiliates of banks--i.e., to the extent required to obtain full information as to the financial condition of the bank.

Investment trusts should remain exempt from examination by the Banking Department.

Caution should be exercised in chartering new institutions.

II. Officers and Directors of Banks

Law enforcement officers, including judges and district attorneys, should be prohibited from serving as officers or directors of banks.

It should be the duty of bank officers to inform their directors of disciplinary communications from the Banking Department.

To impose additional responsibilities on bank directors, beyond specified limits, would discourage men of the type needed by banks from serving as directors.

III. Chain and Branch Banking

Chain banking should be prohibited and branch banking confined to limited regions. It is important, however, that State and Federal laws on these matters should be uniform, and for this reason further study should precede further legislation.

Savings banks, subject to the approval of the Banking Superintendent, should be permitted to open receiving and paying stations.

IV. Reserve Requirements

The law should be amended to require the establishment for State institutions of 3 per cent reserves against all time deposits--which are at present exempt from reserve requirements; attention is called to the fact that so-called thrift deposits in commercial banks are for practical purposes demand deposits. The segregating of thrift or savings accounts is not recommended.

The same reserves against deposits should be required of private bankers as are required of incorporated banks.

V. Fiduciary Powers

The law should be amended to permit any banking association organized under Federal law to become a trust company under State law.

This commission was appointed August 19, 1929, and reported January 29, 1930. It was composed of George W. Davison of New York, Chairman; Howard Bissell of Buffalo; James Byrne, Darwin R. James, Russell C. Leffingwell, Henry W. Pollock, Ray Morris, Jesse Isadore Strauss, and William H. Woodin, all of New York, and Messrs. Campbell and Cheney, members of the New York State Senate.

The report of this commission was submitted at the same time as a report from another investigating agency--the so-called "Legislative Committee," which had been named to consider savings banks. The reports of the two agencies do not agree in all respects.

MR. WARBURG'S SUGGESTIONS FOR CHANGES IN BANKING LAW AND PRACTICE

The following suggestions made by Mr. Warburg are listed without much explanation as they appeared in his Chapter XII entitled "Looking Forward" in the book on the Federal Reserve System, Volume I, page 456, et sequ.

1. He believes that the introduction of term settlement would increase the market for bills and diminish the amount of call loans.

2. He wants to bring about some rule by which each bank that invests a given amount in call loans should be required to invest an equal amount in acceptances or loans thereon. This also would increase the market for bills and would give the banks a secondary reserve in the discount market.

3. He wants to have a similar rule apply to loans made by banks for account of nonbanking lenders. Only in that case the amount invested in bills does not need to be 100 per cent of the loan. He thinks that the law might fix a maximum percentage and the Federal Reserve Board determine a minimum percentage.

4. Remove income tax on income from acceptances.

5. Possibly establish a higher rate on discounts secured by Governments.

6. Is negative. He disapproves of lombard loans. "One shudders to think what would happen to the Federal reserve system if its doors were open for the carrying of stock exchange collateral."

7. He does not believe in regulating commodity prices.

8. He wants to introduce a system by which immediate credit will be given to banks for all checks deposited and interest charged for the time necessary for the check to reach its place of payment, but not for the return trip. He believes that this would give the system a very large contact with the market and would supplement its open-market powers. He thinks that member banks might have the choice of getting deferred credit, or pay interest and get immediate credit.

9. In order not to bring about inflation by the adoption of immediate credit, the Board should have authority to raise required reserves on time deposits.

This matter of immediate credit at interest is not sufficiently clearly stated in the book. Presumably there are other places where Mr. Warburg has elaborated.

10. Abolish national bank notes.

11. Establish and maintain a definite relationship between the discount rate and the rate paid by banks on deposits.

12. Modification of Federal Reserve Board membership:

(a) Each appointive member to spend his last four years: 2 as Vice-Governor, and 2 as Governor of the Board.

(b) The Governor should be Chairman of the Board and the Vice-Governor the Vice-Chairman.

(c) Secretary of the Treasury should not be on the Board, but the Undersecretary should.

(d) The Comptroller of the Currency should either be under the Board or off the Board.

(e) Board members whose terms expire should be eligible for reappointment by the President without confirmation of the Senate.

(f) In addition to the eight members of the Board now provided for, there should be four members selected by the President from a list submitted by four groups of Federal reserve directorates. Each group should comprise the directorates of three reserve banks acting jointly. These four members would, therefore, be representatives of the Federal reserve banks on the Board. The members should attend only monthly meetings at which open-market policy and discount rate policy would be determined. They would live outside of Washington and be contact points. Their salaries would be paid by the reserve banks and the intimation is that they would be in proportion to the salaries paid to officers of the reserve banks, rather than to the Federal Reserve Board.

13. Mr. Warburg also proposes a change in the method of electing directorates of the reserve banks. The election should be made by the branch territories, each branch territory selecting three Class A and Class B directors, and the Board appoint three Class C directors. From each of these branch territories one of

the Class A and one of the Class B directors should be selected to serve on the directorate of the Federal reserve bank, the Class C directors being appointed for the purpose by the Federal Reserve Board as at present.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 1, 1931

To Governor Meyer ✓

Subject: Growth of population

From Mr. Goldenweiser

EAG

2—8495

In the past decade the population of the United States has been increasing at an average rate of 1.57 per cent a year, about the same rate as in the preceding decade, but much more slowly than in the opening years of the century, when each year brought an increase of 2.1 per cent in the population.

Even within the last decade the rate of population growth has been slowing down. Since 1924 the annual rate of increase has been about 1.25 per cent in comparison with about 1.75 per cent in the last years before the World War. This recent decline is the result of restriction of immigration in 1921, made more drastic in 1924, and also of the more rapid decline of the birth rate than of the death rate.

Population experts anticipate a continued gradual decline in the rate of population growth until by 1970 the annual rate of increase will be slightly more than one half of one per cent and the American population will be practically stationary. In another forty years it is estimated that there will be 50,000,000 more people in the United States than at present, or a total population of about 170,000,000. These estimates assume that net additions to population through immigration to the United States will be restricted to 200,000 a year--which is slightly higher than the gain in 1930 from this source, and may be an overestimate in view of the more stringent immigration laws passed by the last Congress. They also assume that the birth rate will continue to decline more rapidly than the death rate. Population estimates for the next forty years, together with a record of population growth since 1800, are shown in the table and on the accompanying charts.

The migration from farms to cities will continue in the next four decades but at a slower rate, it is predicted, and by 1970 about 70 per cent of Americans will be city-dwellers. At present 56.2 per cent of the population is urban, in contrast to 51.4 per cent in 1920, and 40 per cent at the turn of the century.

POPULATION OF THE UNITED STATES 1800-1930

	Number	Per cent of increase from preceding census 1/
1800	5,308,483	...
1810	7,239,881	36.4
1820	9,638,453	33.1
1830	12,866,020	33.5
1840	17,069,453	32.7
1850	23,191,876	35.9
1860	31,443,321	35.6
1870	38,558,371	26.6
1880	50,155,783	26.0
1890	62,947,714	25.5
1900	75,994,575	20.7
1910	91,972,266	21.0
1920	105,710,620	15.4
1930	122,775,046	15.7

ESTIMATES OF FUTURE POPULATION OF UNITED STATES 1930-1970

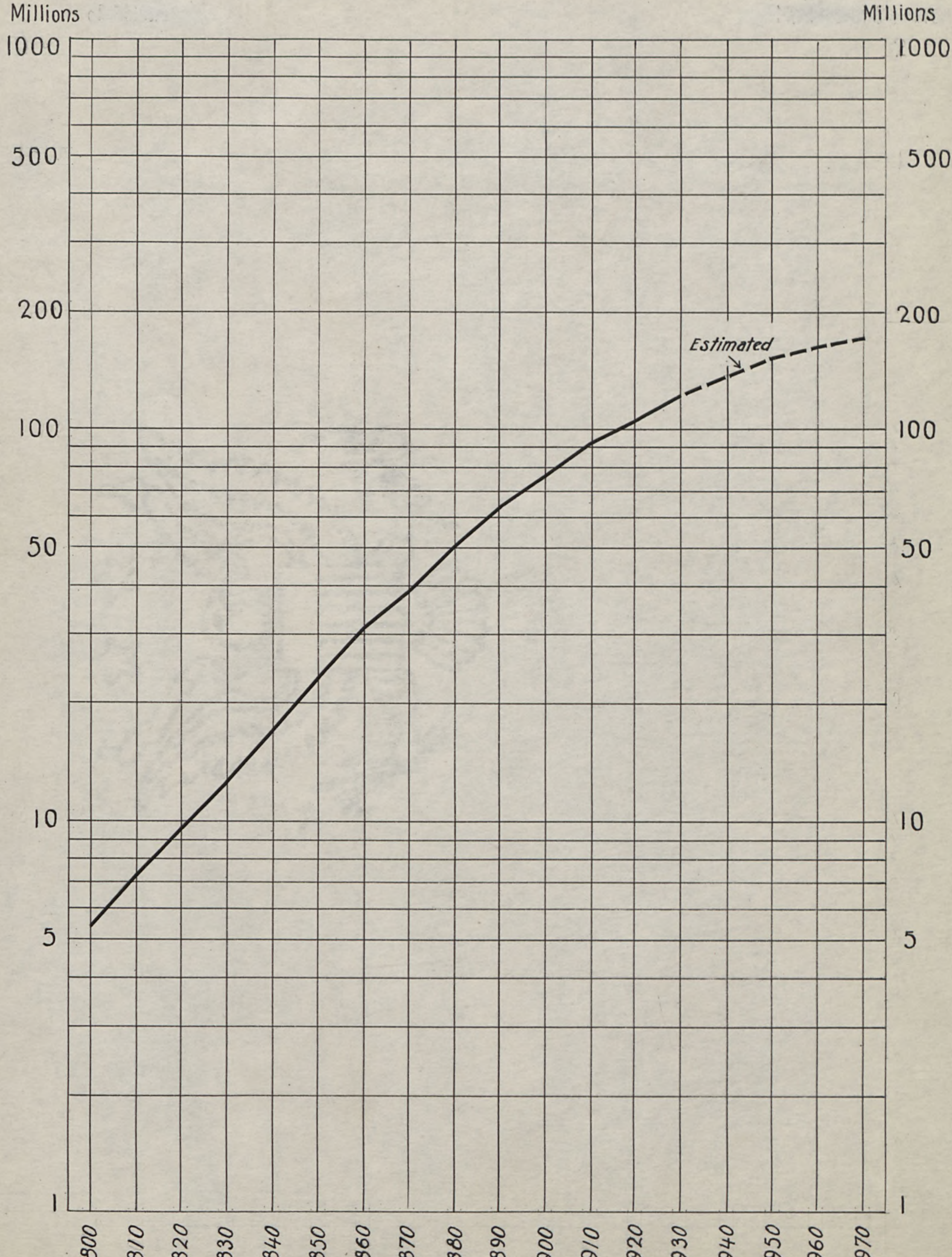
	A		B	
	Number	Per cent of increase from preceding census	Number	Per cent of increase from preceding census
1940	138,250,000	11.9	136,318,000	11.4
1950	151,620,000	9.7	148,678,000	9.1
1960	162,670,000	7.3	159,230,000	7.1
1970	171,460,000	5.4	167,945,000	5.5

A Estimate by Dr. P. K. Whelpton of the Scripps Foundation. This is probably the most careful of the two.

B Estimate by Dr. Raymond Pearl of Johns Hopkins University.

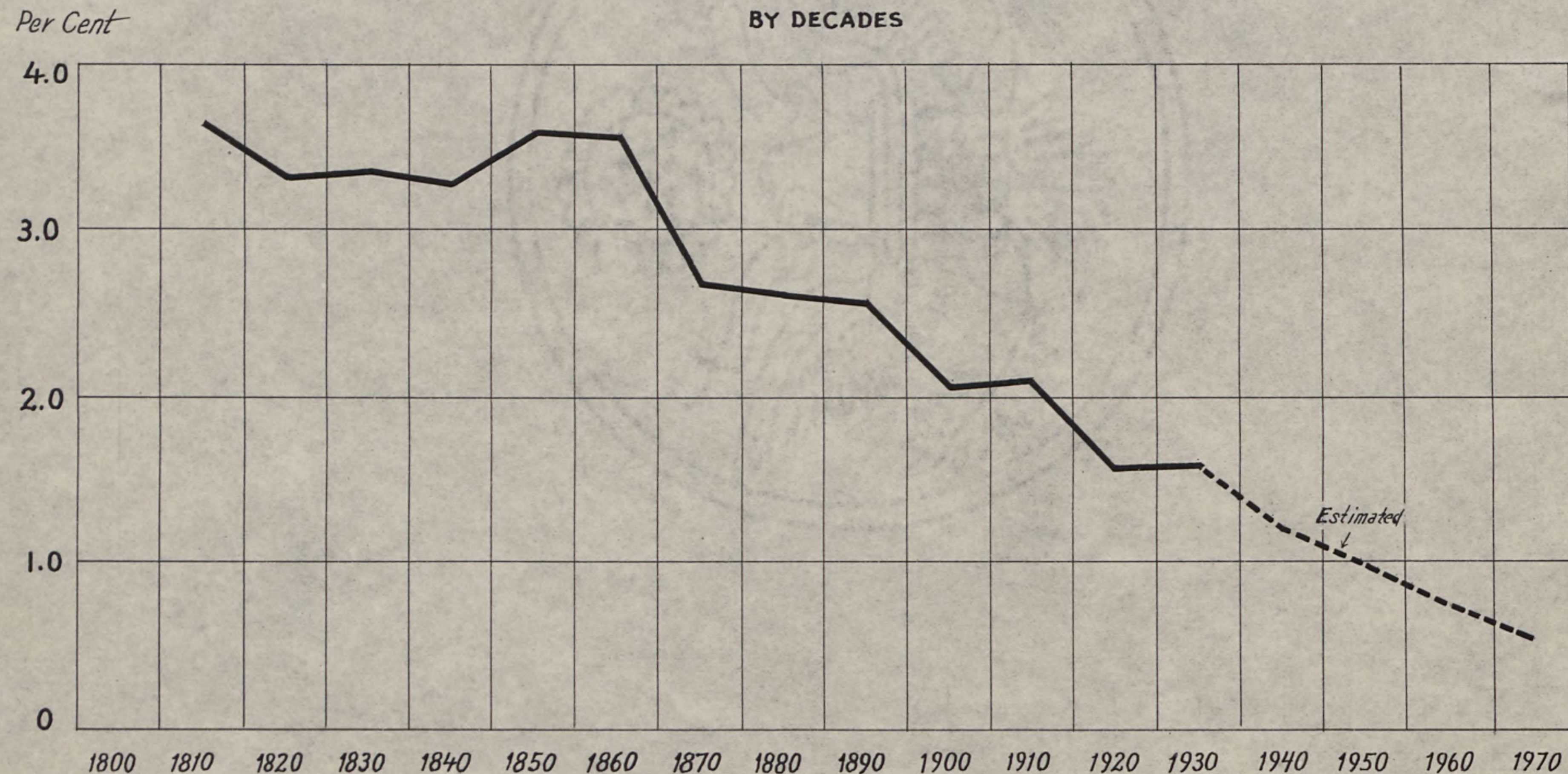
1/ U. S. Bureau of Census. Corrected figures for 1870 and 1880; rate of increase in 1910-1920 and 1920-1930 corrected for unequal length of intercensal periods.

POPULATION OF THE UNITED STATES



U.S. CENSUS

ANNUAL AVERAGE PER CENT OF INCREASE IN POPULATION
BY DECADES



Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 2, 1931

To Governor Meyer

Subject: Deposits in Savings Banks

From Mr. Goldenweiser

2—8495

Figures of deposits in savings banks are currently available--by months--for savings banks in New England, in the State of New York, and in the City of Baltimore. Tables giving these figures are attached; they include altogether about 70 per cent of the deposits of all mutual savings banks in the United States and about 20 per cent of the estimated volume of savings deposits in all banks. Some additional figures are being assembled for parts of Ohio and Pennsylvania and these will be forwarded as soon as they are ready.

In New York there was an unusual increase in deposits of the mutual savings banks during the winter of 1930-31, the increase from the end of last October to the end of February amounting to $270,000,000. This compares with $64,000,000 in the same period a year ago, $78,000,000 two years ago, and $121,000,000 three years ago.

In New England the volume of deposits in mutual savings banks has shown little change during recent months.

In Baltimore there was a substantial growth in deposits of mutual savings banks during the year 1930, but changes during recent months appear to have been negligible.

DEPOSITS OF MUTUAL SAVINGS BANKS IN NEW ENGLAND
(End of month figures)
In millions of dollars

	1929	1930	1931
January	1,603	1,622	1,679
February	1,606	1,631	1,683
March	1,609	1,638	
April	1,614	1,651	
May	1,614	1,655	
June	1,620	1,650	
July	1,619	1,660	
August	1,618	1,657	
September	1,619	1,660	
October	1,612	1,660	
November	1,604	1,661	
December	1,614	1,668	

Source: - Federal Reserve Bank of Boston.

The banks have been so selected that their deposits represent approximately 50% of the deposits in each state in New England.

DEPOSITS OF NEW YORK STATE SAVINGS BANKS
(End of month figures)
In millions of dollars

	1927	1928	1929	1930	1931
January	3,889	4,193	4,410	4,416	4,888
February	3,903	4,204	4,423	4,436	4,928
March	3,973	4,252	4,466	4,509	
April	3,963	4,262	4,439	4,507	
May	3,972	4,253	4,418	4,505	
June	4,034	4,301	4,459	4,559	
July	4,023	4,283	4,434	4,572	
August	4,033	4,299	4,426	4,591	
September	4,089	4,352	4,457	4,662	
October	4,083	4,345	4,372	4,658	
November	4,096	4,334	4,333	4,666	
December	4,164	4,406	4,392	4,792	

Source: Survey of Current Business.

Based on data furnished by the Savings Bank Association of the State of New York and covering all savings banks in New York State.

DEPOSITS OF TWELVE MUTUAL SAVINGS BANKS IN BALTIMORE
(End of month figures)
In millions of dollars

	1929	1930	1931
January	188	190	201
February	188	191	
March	188	192	
April	190	195	
May	189	195	
June	190	196	
July	189	196	
August	189	196	
September	189	197	
October	190	199	
November	188	199	
December	189	199	

Source: - Monthly Review of the Federal Reserve Bank of Richmond.

The deposits of these banks constitute approximately 98% of deposits of all mutual savings banks in Maryland.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 8, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser EAG

2—8495

From June 30, 1919 to June 30, 1930, the public debt of the United States was reduced by $9,300,000,000, which is accounted for as follows:

(In millions of dollars)

Sinking fund	3,187
Other statutory retirements*	731
Total statutory	3,918
Other retirements	5,381
Total ~~budgeted and other~~	9,299

*Includes assigned proceeds of (a) franchise taxes and (b) payments by foreign governments on principal of loans made to them under Liberty bond acts.

According to these figures the Treasury appears to have been required by law to reduce the public debt by $3,918,000,000 during the 11 years ending June 30, 1930, and to have exceeded this program during the period as a whole by $5,381,000,000.

The Treasury budget for the fiscal year ending June 30, 1931 provided for statutory retirement of $441,000,000, including sinking fund of $392,-000,000 and an estimate of $49,000,000 for other retirements, almost all "statutory." It now appears that on account of larger expenses and smaller receipts than anticipated there will be no further reduction of debt during the current fiscal year but instead an increase of which the amount remains to be determined. If the result of all operations up to June 30 should conform to present estimates - in a so-called deficit of $700,000,000 - there will be an increase in the public debt for the fiscal year of about $260,000,-000, instead of the estimated reducetion of $441,000,000.

PUBLIC DEBT RETIREMENTS, JUNE 30, 1919 TO JUNE 30, 1930

(In millions of dollars)

	Gross debt on June 30	Net retirement during year	Statutory retirements			Excess of total retirements over statutory
			Total	Sinking fund	Other	
1919	25,485	--	--	--	--	--
1920	24,299	1,185	76	--	76	1,109
1921	23,977	322	396	261	135	- 74
1922	22,963	1,014	401	276	125	613
1923	22,350	614	327	284	43	287
1924	21,251	1,099	361	296	65	738
1925	20,516	735	330	306	24	405
1926	19,643	873	351	317	34	522
1927	18,512	1,131	379	334	45	752
1928	17,604	908	402	355	47	506
1929	16,931	673	411	370	41	262
1930	16,185	746	484	388	96	262

Total retirements, June 30, 1919 to June 30, 1930	9,299
Statutory retirements	3,918
Excess of total over statutory retirements	5,381

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 7, 1931

To Governor Meyer

Subject: Capital gains, etc.

From Mr. Goldenweiser EAG

2—8495

Figures of gains and losses from the sale of capital assets by taxpayers are available only for individuals (not corporations) and the latest available figures are for the calendar year 1929. They are as follows (preliminary figures; amounts in millions of dollars):

Gains	4,556
Losses	705
Net gains	3,851

For the years 1926-1929 the net figure was as follows:

1926	2,165
1927	2,618
1928	4,596
1929	3,851

The revenue derived by the Treasury from this source is difficult to estimate, largely because of surtax complications. Our approximations for selected years follow:

1926	Between 200 and 235 millions
1928	Between 550 and 610 millions
1929	Between 380 and 430 millions

For years prior to 1926 only the figures for gains are available. These are as follows (in millions of dollars):

1918	291
1919	999
1920	1,021
1921	463
1922	991
1923	1,172
1924	1,514
1925	2,933

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 11, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

EAG

G P O 2—8495

I attach a memorandum on the drought, prepared in accordance with your recent request.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 11, 1931

To Governor Meyer

Subject:

From Division of Research & Statistics

Effects of the drought

E.A.G.

2—8495

Extent of the drought in 1930 and 1931

Attached is a map showing the regions affected by the drought during last year.

In some States--Arkansas, for example--the shortage of rainfall was concentrated in the growing season which made its effects on agriculture particularly severe. In Montana and North Dakota rainfall was also considerably below normal. The Pacific Coast States, where rainfall was deficient for the year as a whole, had adequate moisture during most of the growing season.

Recent rains have greatly improved the situation, but in some areas the drought has not yet been effectively broken. It continued rather generally in the heavily shaded area on the map until March, when rain and snow brought abundant topsoil moisture to the region. The precipitation was less than normal for the month, however, and at the end of March subsoil moisture was reported still below normal over a wide area--the Dakotas, Iowa, Indiana, Minnesota, Ohio, Kentucky, Virginia, West Virginia, Maryland, Pennsylvania, and southern New York. Deficient subsoil moisture will not only affect crops but also the ground-water supply which has been very short in the drought region. This may prove serious if there are dry spells later in the year, according to the Department of Agriculture.

The mildness of the winter with little snowfall benefited livestock owners by relieving the shortage of feed, but resulted in greater evaporation of moisture than usual, which may affect crops later in the year.

ECONOMIC EFFECTS OF THE DROUGHT

Crops

In all of the drought area crop yields were substantially reduced during the season of 1930. Since the drought was most severe in midsummer, the effects were less serious in wheat-growing regions and in areas of diversified farming than in parts of the corn and cotton belts. The extent of reduction of physical volume of crops during the season is indicated in general by State statistics of crop yields per acre, given in the following table:

COMPOSITE CROP YIELDS BY STATES 1930

(In per cent of ten-year averages)

State	Crop yield	State	Crop yield
United States	91	South Dakota	81
		Illinois	83
West Virginia	57	Delaware	83
		Michigan	84
Kentucky	61	Indiana	85
Arkansas	63	Pennsylvania	88
Missouri	67		
Virginia	68	Iowa	91
		Mississippi	92
Montana	70		
Oklahoma	71		
Maryland	73		
Tennessee	76		
Ohio	79		

Source: Department of Agriculture

For the United States as a whole the composite yield of crops per acre was 91 per cent of the ten-year average, while in the drought region, yields ranged from 57 per cent in West Virginia to 88 per cent in Pennsylvania, and 91 per cent in Iowa, where only parts of the States were affected and where early crops were not reduced by moisture shortage.

The feed crops were most severely cut, the 1930 corn crop being only 77 per cent of the average production during the ~~given~~ five years 1924-1928, and the hay crop 88 per cent. Crops of sweet potatoes, buckwheat, flax, and grain sorghums were also smaller than usual.

<u>The livestock situation</u>

The drought affected the livestock industry in the drought regions in several ways--it burned out pastures which would normally have carried stock through the summer and autumn and necessitated early resort to feeding; it reduced feed crops; and it dried up the ordinary sources of water supply, forcing farmers to haul water long distances, and, in some instances, to sacrifice their stock. The effect of the first is not statistically measurable, nor is it possible to determine completely the volume of forced marketing of livestock. In the winter, especially in January and February 1931, relatively high temperatures and the absence of snow permitted a much greater use of pasturage than usual, offsetting to some extent the earlier effects of the drought.

In the most affected parts of the drought area numbers of cattle and hogs were somewhat reduced by the end of the year 1930, as shown by the table below. It is probable that certain sections within each State were more seriously affected than the State-wide figures indicate. Horses and mules, however, showed about the usual rate of decline from the preceding year and State-wide statistics give no indication of unusual reductions in numbers.

CATTLE ON FARMS JANUARY 1930 AND JANUARY 1931

(In thousands)

	Total number		Change from 1930	
	1930	1931	Number	Per cent
United States	57,978	58,955	+ 977	+ 2
West Virginia	531	499	- 32	- 6
Kentucky	955	879	- 76	- 8
Virginia	796	772	- 24	- 3
Ohio	1,670	1,637	- 33	- 2
Arkansas	780	780	--	--
Maryland	291	291	--	--
Missouri	2,172	2,215	+ 43	+ 2
Montana	1,164	1,199	+ 35	+ 3

Source: Department of Agriculture

Taking the livestock industry as a whole, the drought has not greatly changed the situation. Total marketings of cattle since last summer have not been unusually large and the cattle population of the country as a whole, which has been increasing in the two previous years, was 1.7 per cent larger at the beginning of 1931 than a year earlier, as compared with a yearly increase of 2.8 per cent from 1929-1930, and 1.3 per cent from 1928-1929.

Hogs on farms, which have been declining in recent years, showed a more rapid reduction during 1930 in the States in the drought regions, as is indicated in the table below. Arkansas--with a reduction of one-fourth--Kentucky--with a reduction of one-fifth--and West Virginia appear to have been most affected. In other drought States, such as Virginia and Ohio, the decline was not unusual.

HOGS ON FARMS JANUARY 1931 AND JANUARY 1930

(In thousands)

	Total number		Change from 1930	
	1930	1931	Number	Per cent
United States	53,238	52,323	- 915	- 2
West Virginia	173	142	- 31	- 18
Kentucky	661	529	- 132	- 20
Arkansas	708	531	- 177	- 25
Maryland	189	161	- 28	- 15
Virginia	520	468	- 52	- 10
Ohio	2,078	1,974	- 104	- 5

Hogs were shipped to central markets in about the usual volume but at light weights in August and September, and in smaller numbers than usual from October to December 1930, as the price of corn declined rapidly. During most of this period weights were somewhat lighter than usual. This is in contrast to farmers' marketing policy in other years of short corn crops, notably 1901 and 1924. In both of these years, the high price of corn in the autumn following the short crop forced farmers to market their hogs early in the winter, and fewer reached market in the following spring.

Farm income

Farm income throughout the country was greatly reduced during the past year as a result of declines in prices of farm products, but in regions affected by the drought the smallness of the crops marketed at low prices made the farmers' losses particularly heavy. The Department of Agriculture estimates that the agricultural income declined 20 per cent from 1929, while crop output for the country as a whole declined by about 5 per cent, ~~as indicated above.~~ Marketings of livestock and dairy products have not, however, been greatly reduced in volume, but have been drastically reduced in value.

The decline in prices of livestock during the past year and a half has seriously impaired their value as potential income-producers and as security for loans. For the entire country livestock on farms was valued at $1,500,000,000 less than at the beginning of 1930. Cattle, one of the most important of the livestock industries, suffered a decline of nearly $1,000,000,000.

<u>Bank failures in the drought area</u>

The reduction in farm income during 1930 caused by low prices and by drought was an important factor in the increase of bank failures in rural areas.

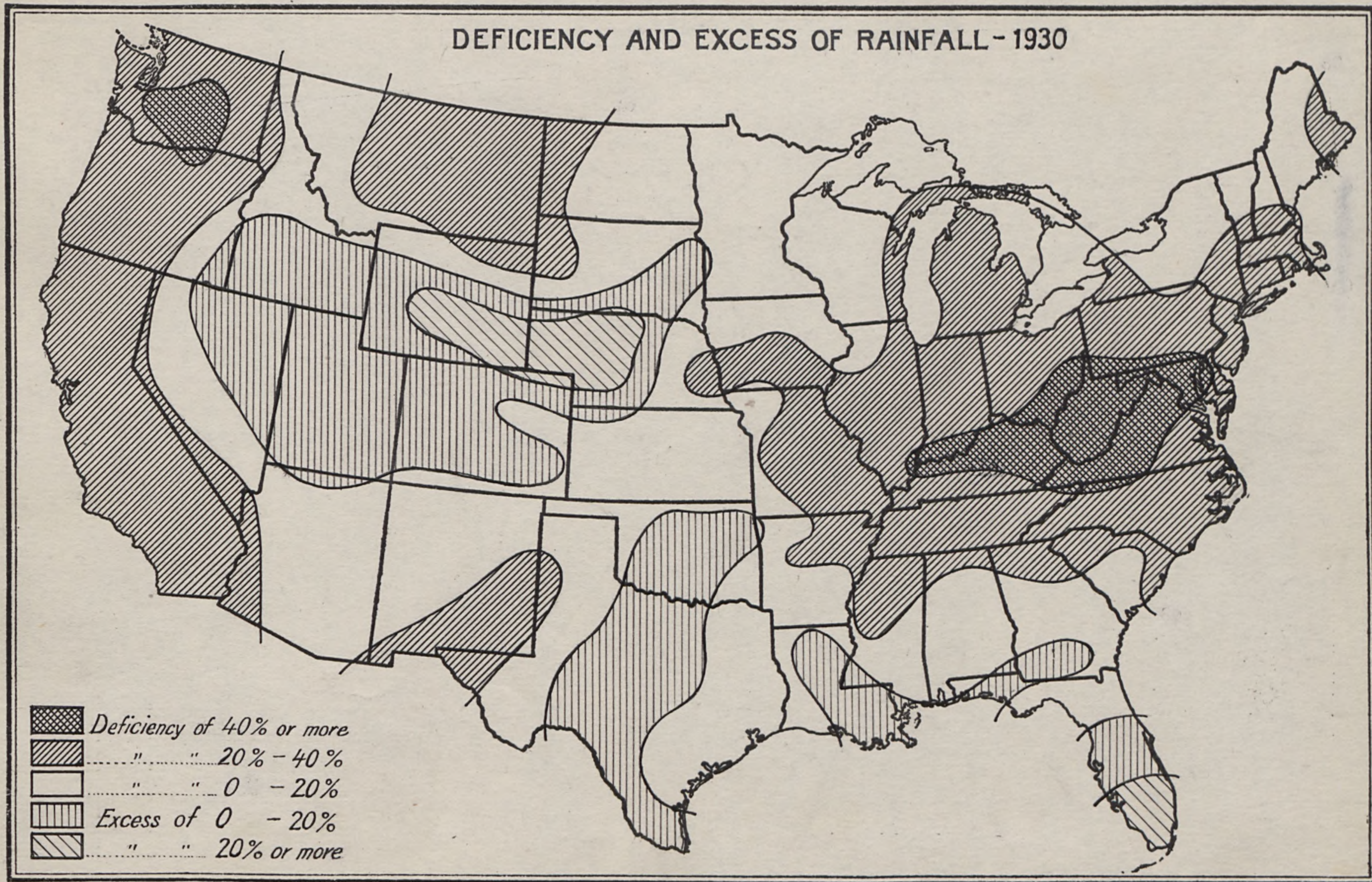
A map of bank failures in 1930 is attached and it shows a general similarity between the drought area and the area in which bank failures were most numerous during 1930. This is most notable in western North Carolina, Kentucky, southern Illinois, northwestern Missouri, and Arkansas. The failure of several chains or groups of banks in these regions, however, was largely the result of stock market speculation by the controlling interests. In Arkansas and Tennessee, 44 banks in the Rogers Caldwell (and A. B. Banks) group failed during the year; and in the region of Louisville, Kentucky, a number of banks collapsed with the Banco Kentucky Corporation. In the Plains States--the Dakotas, Nebraska, and Iowa--where in 1930 as in past years, failures were numerous, the most severe adverse influence in 1930 was probably depressed agricultural prices. In certain sections most affected by the drought--Maryland, Virginia, West Virginia, and western Pennsylvania--failures were very few in number. In Maryland there were only two suspensions, in Virginia 20, and in West Virginia 10 during the entire year. It is reported that in West Virginia State funds were deposited in banks which were in need of temporary bolstering. A map is also attached showing failures for 1920 to 1929, which indicates that in a general way the same regions were affected as in 1930.

Governor Meyer, - #7 April 11, 1931

<u>Note</u>:

During the first week of April there were further beneficial rains, reported as follows by the Weather Bureau:

"East of the Mississippi River the substantial and widespread precipitation that occurred during the week further improved soil conditions, and the ground is now moist down to a considerable depth. In many places even wells and springs are coming back, with small streams running full and, in some sections, especially in South Atlantic States, rivers are reported about bank-full for the first time in a year. Between the Mississippi River and Rocky Mountains beneficial precipitation occurred in the north, but in central and southern districts the soil is amply moist from preceding rains. The sections now mostly in need of additional moisture are the Lake region, parts of the upper Mississippi Valley, portions of the northwestern Great Plains, the eastern Great Basin, and California. The Pacific Northwest has been amply supplied for present needs."


DEFICIENCY AND EXCESS OF RAINFALL - 1930
Deficiency of 40% or more
" " 20% - 40%
" " 0 - 20%
Excess of 0 - 20%
" " 20% or more


BANK SUSPENSIONS
IN THE UNITED STATES
DURING 1930
MEXICO
GULF OF MEXICO
ALASKA


DOMINION OF CANADA
GULF OF MEXICO
MEXICO
ARIZONA
ALASKA
BANK SUSPENSIONS
IN THE UNITED STATES
1921-1929

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 13, 1931.

To Governor Meyer

Subject:

From Mr. Hamlin

2—8495

Dear Governor Meyer:

I have read over carefully Mr. Lichtenstein's letter to you dated April 6, 1931. In this letter he desires some change in the relationship between the Board and the Council, so as to make it a more useful body. In reply I would say that it is primarily for the Council to determine as to the scope of its activity. It was appointed more or less as a critical body, with power to obtain all the information it desires as to Federal reserve bank operations, to make oral or written recommendations concerning matters within the jurisdiction of the Board, to confer directly with the Board on general business conditions, and to make recommendations in regard to rediscount rates, open market operations, etc.

Mr. Lichtenstein seems to feel that the advice of the Council has not affected the actions of the Board to any marked extent. I would disagree with this. I think there have been many occasions where we have profited by the advice of the Council; for example, on the question of split reserves, and the action of the Board as to direct pressure. Mr. Lichtenstein seems to feel that the Board is "hardly an administrative body, and that from some points of view its functions are really similar to those of the Council, in that it is largely an advisory body which acts as a harmonizer and regulator of the individual Federal reserve banks." It is certainly all of this, but very much more, and I believe, as I have stated above, the Council was created in order to carefully scrutinize the action of the

Board with a right to make suggestions or criticisms at any time.

I shall be very glad to cooperate in every way to broaden somewhat the scope of the Council's meetings with us, for I feel that out of this only good can come.

Sincerely yours,

C S Hamlin

April 8, 1931.

Mr. Walter Lichtenstein,
38 South Bearborn Street,
Chicago, Illinois.

Dear Mr. Lichtenstein:

In the absence of Governor Meyer, who is out of the city for a day or so, I acknowledge the receipt of your letter of April 6, and I shall be glad to bring it to the Governor's attention upon his return to the office.

Very truly yours,

(Signed) F. L. Fahy

Secretary to the Governor.

Copies sent to
Board 6 x
7.

FEDERAL ADVISORY COUNCIL

OFFICE OF THE SECRETARY

38 SOUTH DEARBORN STREET

CHICAGO, April 6, 1931

PERSONAL

Dear Governor Meyer:

I am writing to you in advance of the usual formal letter asking whether the Board has any topics to submit to the Council for its meeting in May. Please regard this letter simply as personal and in a sense all I am doing is thinking aloud.

Mr. McKinney is evidently desirous of making the functions of the Council more important than they have been and his view is shared especially by some of the newer members of the Council like Mr. Treman. The history of the Council is somewhat as follows and I am giving you this picture because in one way or another I have had intimate contact with the Council in the last years of Mr. Forgan's occupancy of the presidency and then again since 1926 at which time I became Secretary.

After the Federal Reserve System really became established and the questions connected with its organization were settled, the Board seemed to regard the Council, frankly, as somewhat unnecessary, and the topics submitted were of a most academic type. I remember Mr. Forgan showing me one list which made me think very vividly of an examination paper in an elementary course in economics in some first-class institution. I suppose what happened very often was that the Board, receiving the usual letter stating that the Council would have its meeting, suddenly realized that they would have to find something for these men to pass the time, and so in a hurry questions were formulated, not of great practical importance. This was entirely natural, for, after all, the Council meets only four times a year and most of the members when they leave Washington after the meeting probably do not think seriously again of the Council until just before the next meeting. The Board can hardly be expected to submit questions of routine administration since the members of the Council would not be at all familiar with any of the atmosphere surrounding the problems and could hardly give the time to acquaint themselves sufficiently with all the aspects involved. They also lack the daily contact with the Federal Reserve banks themselves.

To be sure, during Mr. Wetmore's administration, owing to the Chicago rate question and the subsequent development of the speculative wave, the Council temporarily did acquire somewhat greater importance and was really consulted by the Federal Reserve Board. I do not find, however, that the advice of the Council affected the actions of the Board to any marked extent. Mr. Wetmore's attitude was, frankly, that he preferred short meetings dealing with one or two really practical questions rather than spend much time in formal session discussing questions of a somewhat academic nature. He believed that it would be better for the members of the Council to meet together in the morning of the day preceding the regular meeting and then, unless there was really something important to discuss, spend the afternoon seeing some members of the Board and other officials in Washington and have private conferences with them.

Now, however, we have a new administration and as the hired man of the Council, it does not behoove me to express an opinion as to whether Mr. Wetmore's view was a proper one or that which Mr. McKinney seems to hold. Mr. McKinney apparently believes that as the members of the Council come to Washington on Monday and remain until Tuesday noon, it would be well if they remained in session and discussed problems of one kind or another. I am certain that he also does not desire merely academic problems to be presented, though I must confess that one or two of those that have been before the Council recently, as a result of suggestions made by members of the Council, seem to me to be more nearly of the type of those discussed during Mr. Forgan's administration than the ones which were common during Mr. Wetmore's regime.

However that may be, one of the members of the Council recently wrote me that he felt every attempt ought to be made to make the Council more important and if such an attempt proved in vain, then at least the Council would know that it really had no important function. How all this can be brought about, I do not know, but I am certain that it will be your desire also to try and meet the wishes of the members of the Council if this is at all possible. After all, the Board itself is hardly an administrative body and from some points of view its functions are really similar to those of the Council in that it is largely an advisory body which acts as a harmonizer and regulator of the individual Federal Reserve banks. The Board, however, has the great advantage over the Council in that it is on the job all the year around. If I may be allowed to express an opinion, it gets back to what I indicated above, namely, that it is rather difficult to see how an advisory body meeting only four times a year can be expected to exercise very great influence in questions of daily routine, and most of the questions that come before the Board must be of just that type. In other words, the problems which you discuss are generally of a routine nature and are not as a rule problems involving great fundamental theories. In fact, it would be unfortunate if the Federal Reserve System were subject to continual agitation. It might be said of the System, after all, "Happy is the country without a history."

Let me repeat that all I am trying to do by means of this letter is to acquaint you with the feeling that does exist among ~~the members of~~ the members of the Council, which I might summarize as follows:

1. A feeling that the Council should not be expected to come to Washington just for the purpose of having a group of more or less important men more or less waste their time.

2. That the Council might be made of some real service, and in that event the members will be glad to give all necessary time to the work of the Council and be very happy indeed to be members.

Naturally, another difficulty in the whole situation is that, generally speaking, members of the Council retain office for only a relatively short time, so that the complexion of the Council is continually changing and if one group has been trained to be of assistance, the work has to be done all over again at the beginning of each year.

I trust you will pardon me for this lengthy effort, which when all is said and done is not very constructive or helpful; I realize this just as well as undoubtedly you will.

With kindest personal regards,

Sincerely yours,

Walter Lichtenstein

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

C O P Y

FEDERAL ADVISORY COUNCIL

Office of the Secretary

PERSONAL. Chicago, April 6, 1931.

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After the Federal Reserve System really became established and the questions connected with its organization were settled, the Board seemed to regard the Council, frankly, as somewhat unnecessary, and the topics submitted were of a most academic type. I remember Mr. Forgan showing me one list which made me think very vividly of an examination paper in anaelementary course in economics in some first-class institution. I suppose what happened very often was that the Board, receiving the usual letter stating that the Council would have its meeting, suddenly realized that they would have to find something for these men to pass the time, and so in a hurry questions were formulated, not of great practical importance. This was entirely natural, for, after all, the Council meets only four times a year and most of the members when they leave Washington after the meeting probably do not think seriously again of the Council until just before the next meeting. The Board can hardly be expected to submit questions of routine administration since the members of the Council would not be at all familiar with any of the atmosphere surrounding the problems and could hardly give the time to acquaint themselves sufficiently with all the aspects involved. They also lack the daily contact with the Federal Reserve banks themselves.

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I trust you will pardon me for this lengthy effort, which when all is said and done is not very constructive or helpful; I realize this just as well as undoubtedly you will.

With kindest personal regards,

Sincerely yours,

(Signed) Walter Lichtenstain.

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

C O P Y

FEDERAL ADVISORY COUNCIL

Office of the Secretary

PERSONAL. Chicago, April 6, 1931.

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Mr. McKinney is evidently desirous of making the functions of the Council more important than they have been and his views is shared especially by some of the newer members of the Council like Mr. Treman. The history of the Council is somewhat as follows and I am giving you this picture because in one way or another I have had intimate contact with the Council in the last years of Mr. Forgan's occupancy of the presidency and then again since 1926 at which time I became Secretary.

After the Federal Reserve System really became established and the questions connected with its organization were settled, the Board seemed to regard the Council, frankly, as somewhat unnecessary, and the topics submitted were of a most academic type. I remember Mr. Forgan showing me one list which made me think very vividly of an examination paper in anaelementary course in economics in some first-class institution. I suppose what happened very often was that the Board, receiving the usual letter stating that the Council would have its meeting, suddenly realized that they would have to find something for these men to pass the time, and so in a hurry questions were formulated, not of great practical importance. This was entirely natural, for, after all, the Council meets only four times a year and most of the members when they leave Washington after the meeting probably do not think seriously again of the Council until just before the next meeting. The Board can hardly be expected to submit questions of routine administration since the members of the Council would not be at all familiar with any of the atmosphere surrounding the problems and could hardly give the time to acquaint themselves sufficiently with all the aspects involved. They also lack the daily contact with the Federal Reserve banks themselves.

To be sure, during Mr. Wetmore's administration, owing to the Chicago rate question and subsequent development of the speculative wave, the Council temporarily did acquire somewhat greater importance and was really consulted by the Federal Reserve Board. I do not find, however, that the advice of the Council affected the actions of the Board to any marked extent. Mr. Wetmore's attitude was, frankly, that he preferred short meetings dealing with one or two really practical questions rather than spend much time in formal session discussing questions of a somewhat academic nature. He believed that it would be better for the members of the Council to meet together in the morning of the day preceding the regular meeting and then, unless there was really something important to discuss, spend the afternoon seeing some members of the Board and other officials in Washington and have private conferences with them.

Now, however, we have a new administration and as the hired man of the Council, it does not behoove me to express an opinion as to whether Mr. Wetmore's view was a proper one or that which Mr. McKinney seems to hold. Mr. McKinney apparently believes that as the members of the Council come to Washington on Monday and remain until Tuesday noon, it would be well if they remained in session and discussed problems of one kind or another. I am certain that he also does not desire merely academic problems to be presented, though I must confess that one or two of those that have been before the Council recently, as a result of suggestions made by members of the Council, seem to me to be more nearly of the type of those discussed during Mr. Forgan's administration than the ones which were common during Mr. Wetmore's regime.

However that may be, one of the members of the Council recently wrote me that he felt every attempt ought to be made to make the Council more important and if such an attempt proved in vain, then at least the Council would know that it really had no important function. How all this can be brought about, I do not know, but I am certain that it will be your desire also to try and meet the wishes of the members of the Council if this is at all possible. After all, the Board itself is hardly an administrative body and from some points of view its functions are really similar to those of the Council in that it is largely an advisory body which acts as a harmonizer and regulator of the individual Federal Reserve banks. The Board, however, has the great advantage over the Council in that it is on the job all the year around. If I may be allowed to express an opinion, it gets back to what I indicated above, namely, that it is rather difficult to see how an advisory body meeting only four times a year can be expected to exercise very great influence in questions of daily routine, and most of the questions that come before the Board must be of just that type. In other words, the problems which you discuss are generally of a routine nature and are not as a rule problems involving great fundamental theories. In fact, it would be unfortunate if the Federal Reserve System were subject to continual agitation. It might be said of the System, after all, "Happy is the country without a history."

Let me repeat that all I am trying to do by means of this letter is to acquaint you with the feeling that does exist among the members of the Council, which I might summarize as follows:

1. A feeling that the Council should not be expected to come to Washington just for the purpose of having a group of more or less important men more or less waste their time.

2. That the Council might be made of some real service, and in that event the members will be glad to give all necessary time to the work of the Council and be very happy indeed to be members.

Naturally, another difficulty in the whole situation is that, generally speaking, members of the Council retain office for only a relatively short time, so that the complexion of the Council is continually changing and if one group has been trained to be of assistance, the work has to be done all over again at the beginning of each year.

I trust you will pardon me for this lengthy effort, which when all is said and done is not very constructive or helpful; I realize this just as well as undoubtedly you will.

With kindest personal regards,

Sincerely yours,

(Signed) Walter Lichtenstain.

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

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 18, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

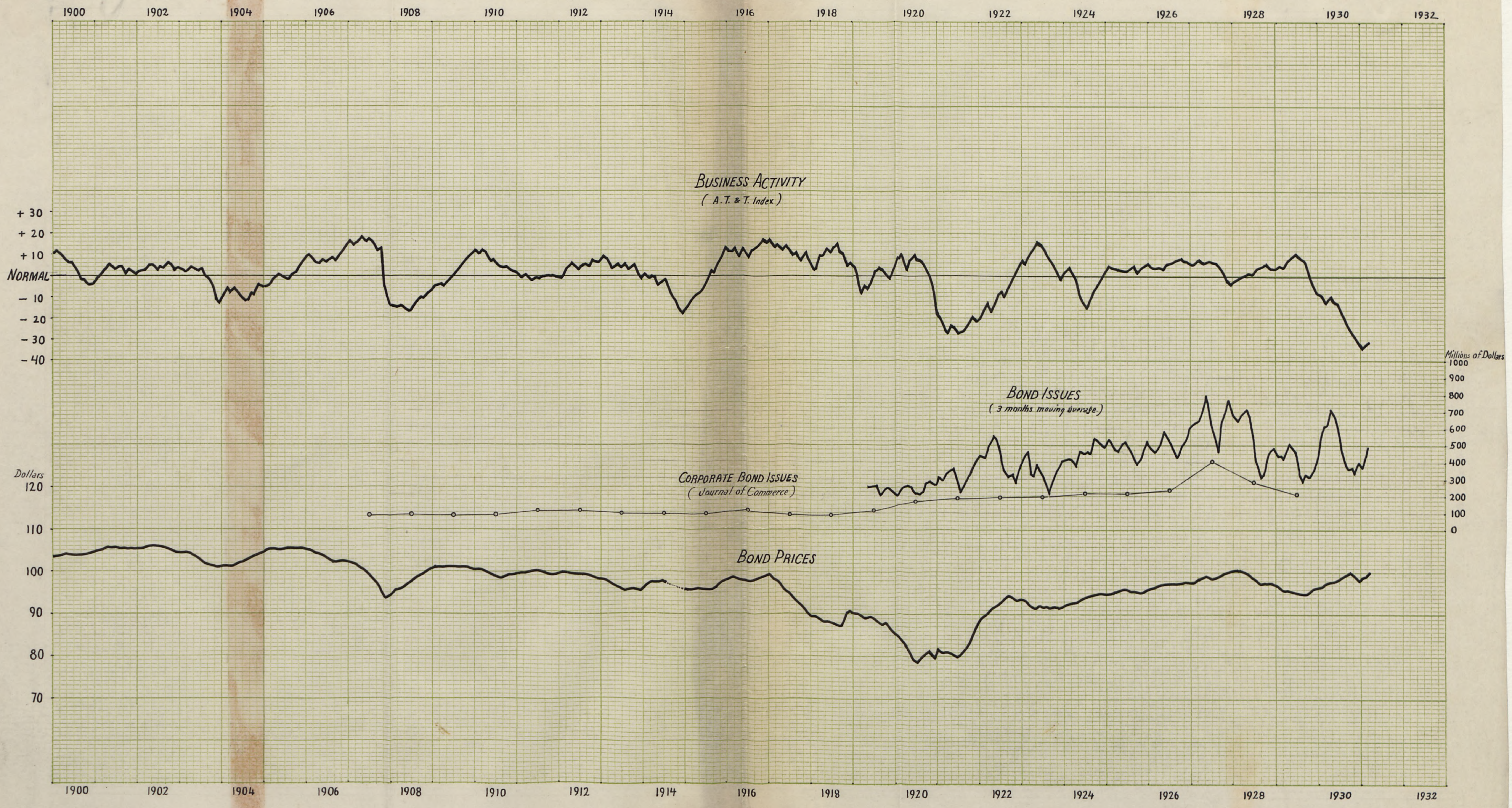
EAG

2—8495

I am sending you herewith a chart showing the curve of business activity as computed by the American Telephone and Telegraph Company. This is the best of the indexes of business activity that is available for a long series of years.

I was surprised and disappointed to find that there are no available data of bond issues by months prior to 1919. I have, therefore, shown on the chart monthly figures for bond issues since 1919 and annual figures for corporate bond issues back to 1907. I have also included a curve on bond prices.

In general the chart supports the view that bond prices tend upward six months or more before business turns up and that they generally turn down some time in advance of a downward turn in business. The figures on bond issues do not seem to fit into the picture in any consistent way.



Business Activity
(A.T. & T. Index)
Normal
Bond Issues
(3 months moving average.)
Millions of Dollars
Corporate Bond Issues
(Journal of Commerce)
Bond Prices
Dollars

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 11, 1931

To Governor Meyer

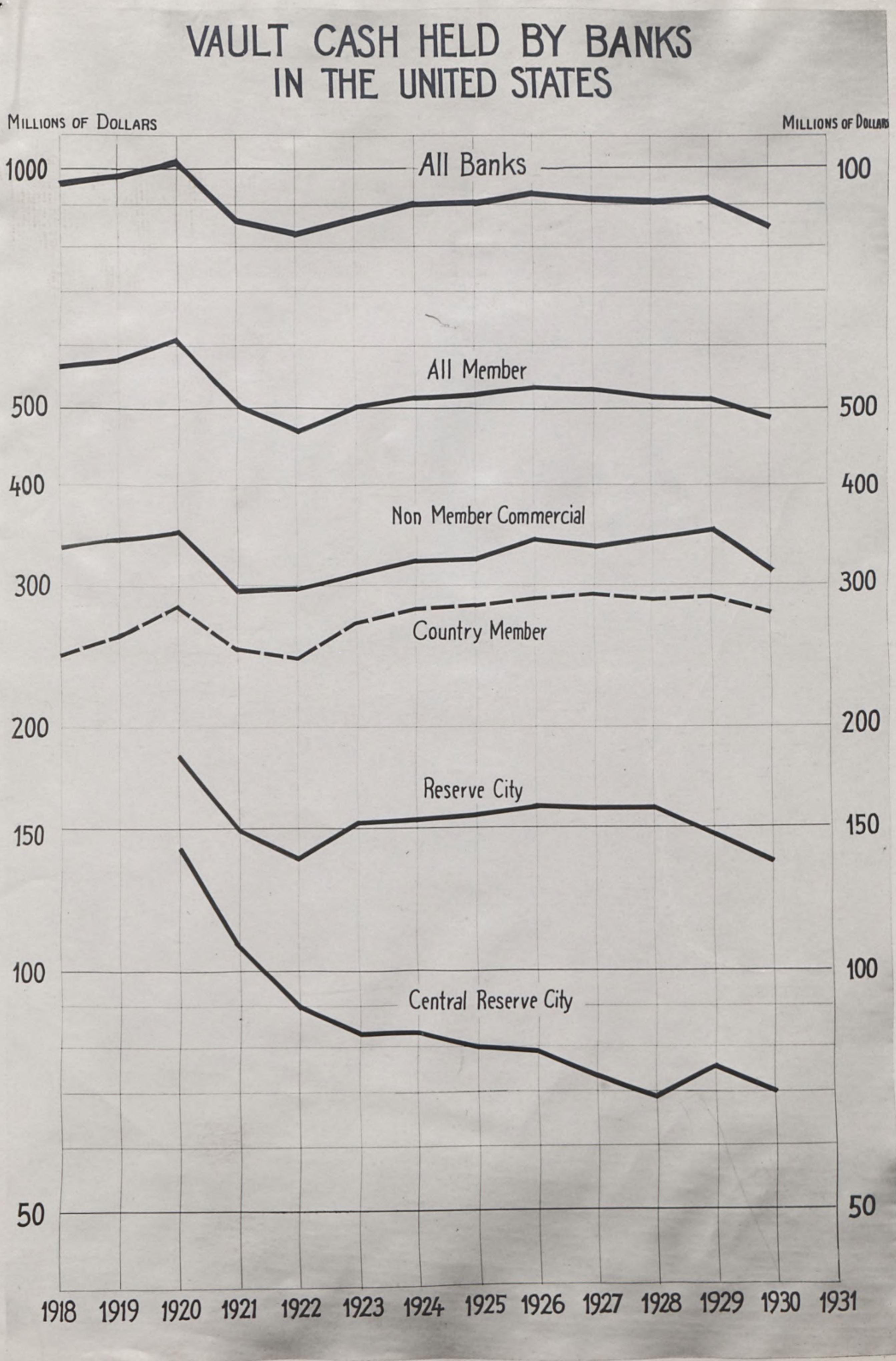
Subject:

From Mr. Goldenweiser

E.A.G.

2—8495

In accordance with your request, I attach two photostatic copies of our chart showing vault cash held by banks in the United States.


VAULT CASH HELD BY BANKS
IN THE UNITED STATES
MILLIONS OF DOLLARS
MILLIONS OF DOLLARS
All Banks
All Member
Non Member Commercial
Country Member
Reserve City
Central Reserve City
1000
500
400
300
200
150
100
50
100
500
400
300
200
150
100
50
1918
1919
1920
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 16, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

2—8495

I transmit herewith a draft of a memorandum prepared in connection with the resolution of the American Farm Bureau Federation. I also return the letter from President Hoover.

June 16, 1931

At a meeting of the American Farm Bureau Federation on December 10, 1930 the following resolution was passed:

> "We recommend to President Hoover the appointment of a commission to be composed of farmers, bankers, economists, and representatives of other groups to study plans and report thereon to Congress to stabilize the value of the dollar so that periods of depression and inflation can be in future more definitely guarded against."

Relation of Price Level to Booms and Depressions

Underlying this resolution there is the assumption that fluctuations in commodity prices are the cause of economic booms and depressions, and that consequently these could be avoided or moderated by preventing or reducing changes in the price level. The resolution, therefore, accepts as axiomatic the existence of a causal relationship between commodity prices and the course of the business cycle. And yet the character and extent of this relationship is the subject of constant controversy among students of economics and finance. Much has occurred in recent years, in fact, to indicate that such a relationship cannot be taken for granted. During the period beginning with 1923 and continuing until the middle of 1929 wholesale commodity prices in the United States were at a relatively constant level, and yet this was the period during which a number of serious economic maladjustments developed that are the fundamental causes of the present depression.

In the building industry the slump started as early as the end of 1928. Industrial production began to decline in July 1929, while prices in the United States did not begin to decline materially until later in the year, and the price decline did not become rapid until after the collapse of the stock market in October of that year. It is clear, therefore, that the price decline did not cause the depression. Analysis of prices during the period of relative price stability between 1923 and 1929 shows that many industrial prices were gradually declining, and that the average of prices was maintained by a gradual rise in the price of animal products, chiefly livestock and meats. The value of the dollar, as measured by the price index, remained stable, but this stability merely reflected the more or less fortuitous fact that the upward swing in livestock prices, which are subject to cycles of their own, happened to coincide with and offset the downward trend in prices of industrial commodities.

~~An~~ Any consideration ~~investigation~~ of ways to prevent booms and depressions should not start, therefore, with the assumption that they are caused by instability in the price level. It should, on the contrary, undertake to determine the causes of fluctuations in business activity. So far as prices are concerned, ~~such an investigation would show that~~ the widest and most disastrous fluctuations have been the products of war, the War of 1812, the Civil War, and the World War. There appears to be no possibility of eliminating such price fluctuations through a control of fiscal or credit policy. No government or central bank has ever been able to withstand the forces working for inflation at a time of a national emergency. Preservation of peace, therefore, is the first requisite for minimizing ~~the prevention of~~ wide swings in the price level, or in the value of money. Other wide fluctuations in prices have occurred in years preceding the economic crises of 1837, 1857, 1883, and 1929. These fluctuations have been due to serious maladjustments in the fields of investment, industry, agriculture, and trade. To cope with price changes due to these causes, better understanding of economic laws and better planning of economic activity has to be developed. In many cases changes in the price level have reflected chiefly price movements of individual commodities or groups of commodities--such as cotton, wheat, livestock, or coal--and these fluctuations present primarily problems not of controlling prices, but of rationalizing production or distribution. It is plain, therefore, that changes in the value of the dollar, as measured by a price index, do not present a single problem separate from other problems of economic life and cannot be prevented by direct attack, such as the various proposals for stabilizing the dollar, but are a part of the general problem of better adjustment between production, distribution, and consumption, better planning, and a consequent better functioning of the economic mechanism.

From a broad social point of view employment is one of the phases of economic life in which stability is most urgently and unquestionably needed, ~~is employment~~. Stability of employment should, therefore, be ~~the~~ an objective, and ~~a study should be made~~ must take into account ~~of~~ the numerous and varied factors--industrial, phychological, social, as well as financial--that exert an influence on employment. Among the financial factors to be considered are the rate and character of the growth of credit, the flow of investment capital, the movement of money rates and exchange rates, as well as the trend of commodity prices. ~~The problem is: which of these factors are susceptible of control, and to what extent can monetary policy contribute to this control and thus to the maintenance of stable conditions of employment?~~ Omit

Desirability of Constant Price Level

The extent to which a constant or a substantially stable price level is economically or socially desirable is a problem. There can be no difference of opinion about the fact that abrupt and violent price advances or declines are an unmitigated evil. The injustice and suffering caused by war-time inflations and deflations are too familiar and too fresh in memory to need elaboration or discussion. There remains, however, the question whether complete stability of prices, assuming that it were practicable, would be advantageous. Price declines may be caused by increased efficiency, and lower production costs ~~and such declines certainly should not be considered undesirable.~~ and It would seem that the consuming public ~~has a right to~~ may expect to benefit by improvement in economic technique. During the period from 1925 to 1927, for example, an important element in the decline of prices was the increase in efficiency of manufacturing, agriculture, and transportation. In these circumstances, furthermore, an attempt by monetary authorities to halt the decline in prices by making credit easier and more plentiful would have been contrary to the more direct objectives of credit policy at a time when the volume of bank credit was increasing rapidly and there was a growing amount of speculative activity in many lines.

Changes in prices are a part of the mechanism of adjustment by which an equilibrium in economic conditions is maintained. When an industry develops too rapidly this results in an output that is beyond consumptive capacity at prevailing prices, and the thing that calls a halt to this too rapid growth is a decline in price to a point where the industry ceases to be profitable. On the other hand, if a product becomes scarce through lack of sufficient production, the consequent rise in prices leads to expansion of production. These facts of common observation are often forgotten by the advocates of price stability. It is true that these adjustments are brought about by changes in prices of individual commodities, rather than in the general price level, but the price index itself is an average of the prices of individual commodities, and its stability cannot be assured unless all considerable fluctuations in the prices of important constituent commodities are eliminated. Price theorists usually attempt to meet this argument by stating that a rise in prices of one group of commodities at a time when no change occurs in the total volume of buying power must result in a decline in other groups, so that the stability of the general level is maintained. Experience shows, however, that there is no assurance of this, and, moreover, the total volume of buying power itself constantly changes. For example, there was a rise in the prices of livestock and of grains in the latter part of 1924 due in part to a world shortage of wheat. The rise in the prices of these individual commodities could not have been prevented by monetary policy. What followed was not a decline in the price of other commodities, that would have maintained a stable price level, but an advance in the general level of prices. To counteract this rise a decline in other commodities would have been necessary, and if some agency had had complete control of the general price level, it could have maintained its stability only by causing a decline in the prices of other commodities. ~~In other words, putting the thing rather roughly, because the farmer got more for his wheat and hogs, the shoe manufacturer, for example, would have received less for his shoes. The price of the shoe manufacturer's food would have advanced, for reasons beyond the control of any agency, and the only effect intervention could have had would have been to reduce the price of his products. This illustrates that there are occasions, and they are not infrequent, when stability of the general level of prices could be maintained only by penalizing one group of the public for the good fortune of another group. Such a procedure would be neither just nor fair.~~ ?

Price Stabilization and Credit Policy

The relationship between credit policy and price stability, which assumes that prices can and should be stabilized through the exercise of credit control, is frequently clouded by the absence of a realistic approach to the problem. Credit policy can affect prices only through influencing the volume and the price of credit. According to formula, low money rates may increase borrowing, therefore purchasing power, which reflects itself in a rise in prices, while high money rates may decrease borrowing and therefore purchasing power, which results in lowering prices. Experience shows, however, that there are many obstacles to the working of this simple formula. High money rates do not always result in decreased borrowing promptly enough to restrict buying power. In 1929 borrowing continued to increase notwithstanding an extraordinarily high level of rates, and in 1930 and 1931 a long period of low money rates did not result in a growth of bank credit. We had a period in 1927-1929 when money rates were rising and prices were advancing, and a period in 1930-1931 when rates were declining and prices were rapidly falling. It seems evident from such instances that the formula over-simplifies the problem and fails ~~failes~~ to contribute to the determination of a constructive policy.

In so far as credit policy can exert an influence in the direction of preventing undue price fluctuations, it can accomplish this purpose best by using every effort towards regulating the rate of growth of credit and maintaining sound banking conditions. These conditions are more directly within the province of credit policy and they also reflect more promptly than do price changes the appearance of unhealthy developments in economic life. Price changes are, in fact, one of the tardiest indicators of inflation, appearing only after purchasing power has become excessive, and generally at a time when it is too late for credit policy to arrest the advance. In so far as price stability is desirable and can be furthered by credit policy, credit administration can best serve this purpose by using its influence toward the maintenance of sound conditions in the banks, where unhealthy economic developments become apparent long before the thermometer of rising prices gives the alarm.

The economic machine does not work with the precision of a chronometer, and only a limited number of its constituent elements are susceptible of quantitative observation or of accurate measurement. Proposals for embarking on dollar stabilization tend to ignore the complexity of the economic mechanism and to depend for the correction of economic ills on the potency of mathematical theorems rather than on a thorough understanding and purposeful utilization of the many forces that shape the course of economic events.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 23, 1931

To Governor Meyer

Subject:

From E. A. Goldenweiser

EAG

GPO 2—8495

The Chilean Ambassador and Mr. Patchin, of Grace & Company have asked Grosvenor Jones and Julius Klein whether it would be possible for the New York bank to do for the Central Bank of Chile something similar to what they have recently done for the Austrian National Bank. Jones called me up at Klein's suggestion to ask me informally about it. I told him that there was nothing in the law to prevent it, but that I knew nothing about the expediency or the policy of such a course of action. Jones told the inquirers that he thought that the matter would be only a gesture, because the South American countries probably would not have the kind of bills that are eligible for purchase by the reserve banks, but they thought that even a gesture would be helpful. I agreed to call this to your attention and to let Mr. Jones know whether you wish to discuss the matter further or not.

Tell EAG to suggest they see Governor Harrison

Done J.J.S.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 23, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

2—8495

In connection with the balance of international payments of the United States for the year 1930, there are some items that have interested me a good deal. The figures are all rough estimates and some of them are now in dispute, but taking them for what they are worth, they indicate that foreigners invested during 1930 an amazing amount of money in the United States. This amount aggregates over $2,000,000,000, ($2,067,000,000). The two principal items in this total are purchase of American stocks and bonds up to an amount of $941,000,000, and the repurchase of foreign stocks previously held here to the extent of $806,000,000. It is true that our investments abroad during the year were $2,357,000,000, i.e., $290,000,000 in excess of the foreigners investments here, but nevertheless it shows that during a year when foreigners were hard pressed for dollars and were obliged to ship $278,000,000 of gold to this country they were nevertheless able to repurchase more than $900,000,000 of their own securities at bargain prices, and to invest $800,000,000 in our securities.

The United States has been criticized for not lending enough to foreigners in 1930, but the figures show that even on long term we lent $290,000,000 more than we borrowed, to say nothing of the $443,000,000 that we lent on short term, but the real point is that the foreigners had it in their power to increase the balance in their favor enormously by curtailing their own purchases of our securities and their repurchase of their own securities in our market.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date July 29, 1931

To Mr. Goldenweiser

Subject: American Investments in Australia, Canada, and England

From Mr. Thorne W.T.

E.A.G.

GPO 2—8495

The following estimates of American investments in Australia, Canada, and England were obtained from the Finance and Investment Division of the Bureau of Foreign and Domestic Commerce, Department of Commerce. These estimates are confidential as they have not yet been published.

American Foreign Investments

(In millions of dollars)

Type of investment	Australia	Canada	England
Securities held:			
National government	162	2/ 857	143
State and municipal	100		
Government guaranteed		412	
Corporate	2	623	
Direct investment	1/ 155	2,048	497
Total	419	3,940	640

1/ Includes about $10,000,000 estimated direct investments in New Zealand.

2/ Includes $23,000,000 worth of securities of the Government of Newfoundland.

Copy for Miss Jay

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 14, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

2—8495

I have received a request from Mr. Ballantine, Assistant Secretary of the Treasury, for an estimate of the amount of currency withdrawals as a result of banking disturbances. Mr. Ballantine wishes the information for the use of the President, and he tried to get in touch with you directly and turned to me in your absence.

The volume of currency in circulation at the present time is $535,000,000 larger than a year ago. Of this amount about $75,000,000 represents an increase in cash in vault held by banks as a precautionary measure against possible runs, and perhaps $50,000,000 represents currency shipped abroad. This leaves about $400,000,000 of net increase of so-called money in circulation. This increase, however, represents hoarding rather than circulation. I should say that this is the rock bottom minimum figure, and that when allowance is made for the decrease since last year in pay rolls and retail trade, which are the principal users of currency, the amount of currency that is being hoarded may be as much as $700,000,000.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 22, 1931

To Governor Meyer

Subject: Money in circulation

From Miss Joy

GPO 2—8495

E.A.G.

A.S.

Money in circulation on Wednesday, September 16, was $5,087,000,000--$629,000,000 more than a year ago at this time.

Hoarding appears to have increased somewhat since the first of September; certainly there is no evidence of a reduction in the country as a whole. The return of cash to the reserve banks following the Labor Day holiday has been $20,000,000 to $30,000,000 less than usual, indicating that larger amounts of cash are being held by banks or individuals. Our latest estimate of $700,000,000 increase in private domestic hoarding since last October should probably be increased by several millions.

This expansion in circulation since the first part of September centered chiefly in the Chicago, Philadelphia, Richmond, Dallas, and San Francisco Federal reserve districts. Small bank failures continued in the Chicago district; there was one suspension in the city of Philadelphia; and large banks closed their doors in Frederick, Maryland, El Paso, Texas, and Ogden, Utah. The suspension yesterday by the Bank of Pittsburgh, N. A., which with its subsidiary has deposits exceeding $50,000,000, will add to currency demand at the Cleveland Federal Reserve Bank.

Increased foreign shipments of American currency and hoarding of American money already in circulation in foreign countries is almost certain to result from the British suspension of the Gold Standard Act, and the consequent uneasiness throughout the Continent. In the month of August, the latest date for which figures were available, foreign shipments were smaller than in July, but exceeded those in August of recent years by over $2,000,000, indicating a continued outward movement of American money.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 25, 1931.

To Governor Meyer

Subject: Personal

From F. R. Harrison

2—8495

Mr. Charles J. Brand, Secretary of the National Fertilizer Association, called on the telephone this morning. He stated that he had just returned from a meeting of the Executive Committee of the Association in New York, and that the Committee is very anxious to have you attend the annual convention of the association to be held in Atlanta, Georgia, around November 10 or 11. I told Mr. Brand that you were out of the city and that I would bring the matter to your attention upon your return, but that I felt confident you would not be able to accept the invitation. I explained to him that you had received a large number of invitations, but that it had been impossible to comply with any of them because you could not find the time to prepare the necessary material or to perform the travel involved.

Mr. Charles Dewey dropped in the office this morning. He had two things on his mind. He feels that with the developments that have taken place recently in Europe, there will be more and more discussion and consideration of the question of debts, reparations, etc., and that inevitably the United States and France will have to take the leadership in these matters. Because of his three years of service in Poland and his acquaintance with many of the leading men in other European countries, he feels that he has gained a knowledge of the technique abroad and that he could perhaps be useful in some direction. He made it clear that he was not asking for anything, but he wanted you to know of his availability in case anything should develop.

Mr. Dewey also said that he had played golf with Melville Traylor recently in Chicago and that Mr. Traylor had made a suggestion which might be worth while considering--namely, the revival of the War Finance Corporation

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date

To

Subject:

From

2—8495

with authority to make loans to banks on real estate mortgages. The Corporation, he stated, could be financed by issuing bonds guaranteed by the Government. He thinks that many radical proposals are going to be made in the next Congress and that it would be highly desirable in the circumstances to have available for presentation some concrete plan that would be less harmful than many others that will be seriously discussed. Incidentally, he said he understood that the matter of reviving the War Finance Corporation, or at least of creating some agency to take over real estate mortgages, had been mentioned at the meeting of the Advisory Council.

Mr. Dewey also expressed the opinion that, as a sop to agriculture, it might be well for the Government to guarantee Federal Land Bank bonds.

Mr. Dewey added that while these things might seem somewhat radical, the Government is justified, in his opinion, in doing something unusual in a crisis like this, and that, in any event, they would be less harmful than many other proposals, such as, for instance, Mr. Hearst's plan to authorize the expenditure of $5,000,000 for roads, etc. Of course, I merely listened to Mr. Dewey and made no comment on any of his suggestions.

Sto

October 1, 1931.

Mr. Parry phoned the following information:

Since the first of June the amount of money in circulation has increased by $506,000,000, which is up tothe average for the week ending last Saturday.

The estimated amount of money hoarded appears to have increased since the first of June by about $540,000,000, maybe less.

With reference to vault cash in banks, the reporting member banks increased their vault cash by about $44,000,000 during the period since June 1; the figure for the non-reporting member and non-member banks increased by $75,000,000 to $100,000,000.

The increase in the amount of money hoarded by individuals, leaving the banks out of consideration, may be around $450,000,000.

The figures on export and import of gold for the period June 1 to August 31 (the last date for which they have them) shows exports about $13,000,000 net. The figure for the same period last year was imports $15,000,000 net.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 7, 1931

To Governor Meyer

Subject: Money in Circulation

From Miss Joy

GPO 2—8495

a.J. E.A.-S.

Currency withdrawals during the past week were over $100,000,000, and on Monday, October 5, there was a further increase, although ordinarily currency returns to the reserve banks after the week-end. The total of $5,419,000,000 outstanding on Monday exceeded last year's volume by $877,000,000. For the past week (ending October 3) as a whole, circulation averaged $764,000,000 larger than in the same week in 1930.

The abnormal drain of currency from the reserve banks and the Treasury since early in November, 1930, when serious bank suspensions began, is probably over $1,150,000,000. At that time circulation had been reduced $300,000,000 from the 1929 level, as demands for cash for pay envelopes and for retail transactions declined. Retail prices have fallen continuously since then, and payrolls have also been smaller, so that the amount of cash currently required for business transactions would in ordinary circumstances have been reduced by almost as much as in the preceding year.

	Per cent change	
	Aug. 1929 to Aug. 1930	Aug. 1930 to Aug. 1931
Department store sales	- 8	-13
Retail food prices	-10.3	-16.7
Factory payrolls	-26	-21

Instead of a decline, there has been an increase of $875,000,000. Of this, $100,000,000-$125,000,000 probably represents till money held by banks, and $50,000,000-$60,000,000 the increase in American money held abroad. Nearly $1,000,000,000 is in domestic hoards, withdrawn because of fear of the stability of banks.

The largest drain of currency during last week was at New York, where over $30,000,000 was withdrawn, reflecting uneasiness over the foreign as well as the domestic situation. Of this total, $7,000,000 was in gold coin, for domestic use.

Philadelphia has been a storm center in the past ten days. Nine banks in the city closed their doors between September 28 and October 6. The Philadelphia Federal Reserve Bank reports payments of currency amounting to over $45,000,000 to city banks during the period. The Clearing House Association passed a resolution urging its members to invoke legal notice on savings and other time deposits.

Six Pittsburgh banks failed in the week ending October 2, and there were other large failures in the Cleveland district, with the result that demand for currency at the Cleveland Federal Reserve Bank increased by $16,000,000 (Sept. 30, latest available figure). The Chicago Federal Reserve Bank had a net drain of $17,000,000, as small bank failures continued; and a bank in Davenport, Iowa, with deposits of $33,000,000 failed.

Legislation

October 9,1931.

Governor Meyer

Mr. Wyatt, General Counsel.

Respects in which Federal Reserve Board could broaden classes of eligible paper without amendment to the law.

CONFIDENTIAL.

In his statement of October 7, 1931, the President said:

> "4. I shall propose to the Congress that the eligibility provisions of the Federal reserve act should be broadened in order to give greater liquidity to the assets of the banks, and thus a greater assurance to the bankers in the granting of credits by enabling them to obtain legitimate accommodation on sound security in times of stress."

It has occurred to me that, in view of the present emergency, it might be advisable for the Federal Reserve Board to consider in what respects the present provisions of its regulations could be amended so as to broaden the classes of eligible paper without waiting for Congress to amend the law. An announcement by the Federal Reserve Board of amendments to its regulations having this effect might be of great psychological value and certain possible amendments might have material practical advantages in the present emergency.

I therefore respectfully invite your attention to the following respects in which certain provisions of the Board's Regulation A, which place restrictions upon rediscounts, could be modified without any amendment to the law.

PAPER ACQUIRED FROM NONMEMBER BANKS.

Without any amendment to the law the Board could grant blanket permission for member banks to rediscount paper acquired from nonmember banks, as it did from July 27, 1921 to June 26, 1923.

In normal times, member banks which act as city correspondents for nonmember banks can make loans to such nonmember banks against their bills receivable and then borrow from the Federal reserve bank against Government bonds and eligible paper acquired by such member banks from their own customers. In the present emergency, however, the city correspondents may not have enough Government bonds or eligible paper acquired from their own customers to enable them to take care of the needs of their country correspondents; and it might be very helpful to grant blanket permission for the rediscount of nonmember bank paper. This could be done by a public statement granting such blanket permission; but it would be advisable to repeal or modify Section IX (b) of Regulation A, which requires written application for permission in each particular case.

<u>REQUIREMENT OF FINANCIAL STATEMENTS.</u>

Section IV (b) makes certain classes of paper ineligible for rediscount unless a recent financial statement of the borrower is on file with the member bank. I believe that this is a good requirement; but it undoubtedly has the effect of making ineligible much paper which otherwise would be eligible, because the member banks have neglected to obtain financial statements of the borrowers. This is particularly important in the case of member banks which have been in the habit of borrowing from their city correspondents and now find it necessary to apply to the Federal reserve bank for the first time.

As an emergency measure, the Board might consider the advisability of repealing the second, third, fourth and fifth paragraphs of Subdivision (b) of Section IV, leaving only the first and last paragraphs of that section. The requirement in the last paragraph that, "A Federal reserve bank may, in any case, require the financial statement of the borrower to be filed with it", would seem to afford sufficient protection in this respect in the present emergency.

LIMITATION ON DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS.

Section VI (d) contains the following restrictions:

1. "Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount paper for any Federal intermediate credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation;" and

2. "Except with the permission of the Federal Reserve Board, the aggregate amount of paper discounted by all Federal reserve banks for any one Federal intermediate credit bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal intermediate credit bank."

Without any amendment to the law or the regulations, these limitations could be modified by the issuance of a public statement granting blanket permission for Federal reserve banks to rediscount paper for Federal intermediate credit banks notwithstanding these limitations.

LIMITATION ON REDISCOUNT OF PAPER WITH MATURITY IN EXCESS OF SIX MONTHS.

Section VI (e) provides, in part, that, "The aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal reserve bank shall not exceed 10 per cent of its total assets."

While this probably is of little practical importance, an amendment abolishing or modifying this restriction might have a good psychological effect.

CONCLUSION.

At this moment I am not prepared to recommend any of the above modifications of the Board's regulations; but I respectfully submit the matter for your consideration.

For your further information, I respectfully submit herewith a copy of Regulation A with the provisions referred to above marked, and copies of the Board's circular letters of July 27, 1921 (X-3176) and July 18, 1923 (X-3784) with regard to rediscounts for nonmember banks.

Respectfully,

Walter Wyatt,
General Counsel.

Regulation and circular
letters attached.

WW sad

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 13, 1931

To Governor Meyer

Subject: Money in Circulation

From Miss Joy

a.J. E.A.G.

2—8495

The abnormally rapid withdrawal of currency for domestic use continued during the first part of last week, and on Wednesday, October 7, when the President's program was announced, the total circulation was $5,431,000,000--an increase of $944,000,000 from 1930. During the following two days the increase in circulation, amounting to $42,000,000, was largely in accordance with usual changes based on days of the week, Wednesday to Friday being a period when cash is ordinarily withdrawn for payrolls and for week-end shopping.

At the New York Federal Reserve Bank, currency payments have been more nearly normal during the past week than at any time since Great Britain suspended gold payments. Small withdrawals of gold coin have continued.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 27, 1931

To Governor Meyer

Subject: Money in Circulation

From Miss Joy

a.J. [illegible]

GPO 2—8495

There was a small return flow of currency during the latter part of the past week, and on Saturday, October 24, the volume of circulation--$5,523,000,000--was $25,000,000 less than the record high level reached on Monday, October 19.

The New York Federal Reserve Bank reported a net return of about $12,000,000 during the week, and demand at the Federal Reserve Bank of Philadelphia diminished in the last few days following the withdrawal of $10,000,000 on Monday.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 4, 1931

To Governor Meyer

Subject: Money in circulation

From Miss Joy

a.J.

2—8495

Money in circulation, after declining from October 19 to October 29, increased over the month-end. On October 31, the total was $5,545,000,000--$22,000,000 larger than a week earlier. This increase reflected in part the demand for cash for month-end settlements, etc., which ordinarily occurs in the last few days of October. There may also have been some withdrawal incident to the suspension of the Union Trust Company of Dayton, Ohio, on the thirty-first of October.

Warren Persons' statement that $20,000,000 of thedecrease of $24,000,-000 between October 21 and October 28 was seasonal in nature is incorrect. In the corresponding period in 1928 and 1929 there was an increase in circulation. There is no adequate basis for estimating the exact amount of normal seasonal change in daily circulation, because of the importance of the date of the month on which a particular week-day falls.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 6, 1931

To Governor Meyer

Subject: Increase in Money in Circulation, October 28 to November 4.

From Miss Joy

A.J. E.A.G.

GPO 2—8495

The increase of $63,000,000 in money in circulation between October 28 and November 4 does not indicate a corresponding increase in hoarding. It was partly seasonal in character. Considerable withdrawals over the month-end have been common in recent years, and election day holidays in certain states probably added a small amount to the usual demand. There were, no doubt, some withdrawals as a result of uneasiness over the banking situation, particularly in the region around Dayton, Ohio.

November 6, 1931

Governor Meyer

Miss Joy

Increase in Money in Circulation, October 28 to November 4.

The increase of $63,000,000 in money in circulation between October 28 and November 4 does not indicate a corresponding increase in hoarding. It was partly seasonal in character. Considerable withdrawals over the month-end have been common in recent years, and election day holidays in certain states probably added a small amount to the usual demand. There were, no doubt, some withdrawals as a result of uneasiness over the banking situation, particularly in the region around Dayton, Ohio.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 11, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser EAG

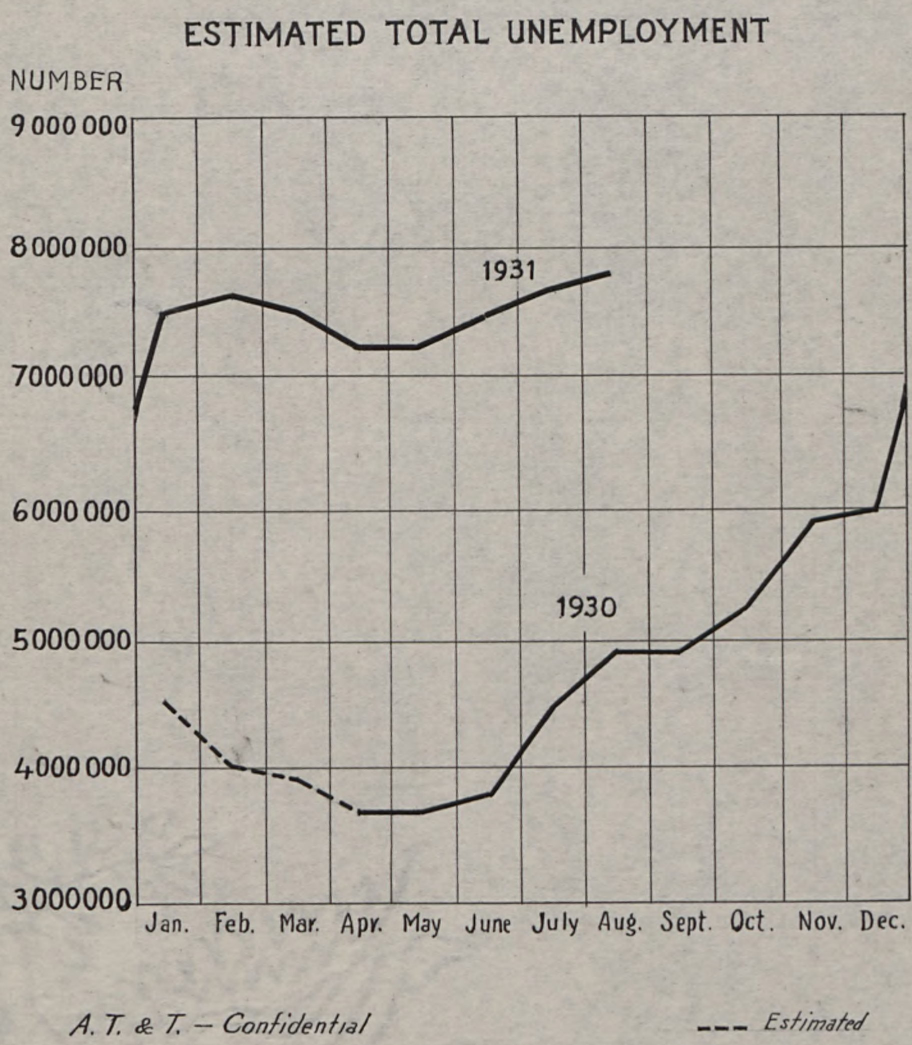
2—8495

I transmit the attached note on unemployment, prepared by Miss Joy.

Division of Research and Statistics November 10, 1931

UNEMPLOYMENT

Seven million eight hundred thousand workers were unemployed in August, according to a confidential estimate made by the American Telephone and Telegraph Company. The rapid increase in unemployment since 1929 is shown on the chart below.



In April, 1930, the Census found 3,700,000 persons either out of a job or absent without pay from their regular work. Since then more than 4,000,000 have been added to the ranks of the unemployed. Some are unable to work because of sickness or disability, but their number is small, and the vast majority are able-bodied workmen who either have no jobs or have been laid off without pay.

Of the 7,800,000 unemployed, the largest bloc is 3,350,000 former factory workers. Nearly one-third of the persons formerly on factory payrolls have been laid off. Retail and wholesale stores, with about 20 per cent unemployed, accounted for another million in August, which is normally a dull season for trade.

The building trades have been more severely affected, relative to their numbers, than any other branch of industry. Employment in construction had been decreasing since 1928 and in April, 1930 over half a million were out of work. By midsummer of this year (1931) 390,000 more men had been added to the ranks of the unemployed, with the result that over 40 per cent of the number attached to the industry were out of jobs. This is an exceptionally large number, in view of the fact that summer is the construction industry's most active season. In street and highway work, not included in these figures, employment was probably relatively greater than in residential and commercial construction.

Of the railroad men, almost one-fourth (380,000) are unemployed. Shopmen and maintenance-of-way men have been discharged in largest numbers, although many engineers and trainmen have also been laid off or put on the "reserve" list, making only occasional runs. About the same number of miners are out of jobs; and their situation, following several years of under-employment, particularly in coal mines, is extremely serious.

In agriculture unemployment is almost impossible to measure, since there are no comprehensive current reports from farmers. It is reported by the Department of Agriculture that fewer farm laborers have been hired this year than last, both because of reduced cash income and because of the drought in certain parts of the Middle West and the Mountain States.

The Outlook

Unemployment will be more serious before the winter is over. Last year 2,500,000 were added to the ranks of the unemployed between August and January. In part this was seasonal, particularly in agriculture and in construction. However, the general decline in business activity was probably an even more important factor. Seasonal declines in production this winter can be expected to add 1,000,000 or more to the ranks of the unemployed by January.

It is probable that a substantial increase in employment will not come for several months after business begins to improve. So many industries are operating on part-time schedules that production can be expanded considerably without hiring more workmen. This practice was followed after the depression of 1921 and again after the brief recession in the winter of 1927. Unless there is a "take-on-more-men" campaign this tendency will be intensified in the recovery from this depression because employers have spread work among their men in greater measure than ever before.

Even when production is again at high levels, as in 1928, for example, there will probably be fewer men employed in factories than in that year. Depression always brings economies in the use of labor, and after each recent depression some workmen have been forced to shift to other occupations or to become casual laborers.

File

November 11, 1931.

Governor Meyer:

Mr. Bestor tells me that the Federal Reserve Bank of New York now holds $23,140,000 of Federal intermediate credit bank debentures, which were purchased from the banks. In addition, it holds $150,000 debentures which were purchased in the market, presumably at the instance of Dunn, making a total of $23,290,000.

On the basis of the information now available, the Federal intermediate credit banks have discounted paper with the Federal reserve banks in the aggregate sum of $9,960,000, as follows:

Columbia . . . . . $2,500,000 . . . with the Federal Reserve Bank of Atlanta

New Orleans . . . 1,500,000 . . . with the Federal Reserve Bank of Atlanta

St. Paul . . . . . 750,000 . . . with the Federal Reserve Bank of Minneapolis

(In addition, the St. Paul bank has an agreement with the Federal Reserve Bank of Minneapolis to rediscount an additional $850,000, the proceeds of which were to be used to retire $850,000 of St. Paul debentures held by the New York Federal Reserve Bank.)

Omaha . . . . . . 1,100,000 . . . with the Federal Reserve Bank of Kansas City

(In addition, the Federal Reserve Bank of Chicago has agreed to purchase $1,000,000 of Omaha debentures above its allotment from the Federal Reserve Bank of New York.)

St. Louis has not discounted any paper with the Federal Reserve Bank of St. Louis. It has, however, an agreement with the Federal Reserve Bank of Chicago to purchase $1,000,000 of its debentures in addition to Chicago's allotment from the Federal Reserve Bank of New York. The St. Louis Intermediate Credit Bank also has an arrangement with some of the leading banks in St. Louis to discount its paper in an indefinite amount.

Wichita . . . . . 850,000 . . . with the Federal Reserve Bank of Kansas City

(Originally had a commitment from the Federal Reserve Bank for discounts in the aggregate amount of $1,500,000, but Worthington recently notified Wichita that its reserve ratio was down to 43 and there was an intimation that it would ~~be~~ not be able, in the circumstances, to carry on with the commitment. Wichita will not need any additional money until December.

Berkeley . . . . $2,000,000 . . . Federal Reserve Bank of San Francisco

Spokane . . . . 1,250,000 . . .with the Federal Reserve Bank of San Francisco

Hogan anticipates that at least $1,000,000 of cattle feeder paper will be presented to ~~it~~ Omaha for discount in the near future. Thomson, of Springfield, is planning to see the Guaranty Company today with reference to the possibility of discounting $1,000,000 of paper with it.

F.R.H.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date November 12, 1931

To Governor Meyer

Subject: Money in Circulation

From Miss Joy

a.J.

GPO 2—8495

Currency outstanding on Monday, November 9, was $5,551,000,000, slightly larger than at the month-end. Since November 1 there have been only the usual day-to-day variations in demand for currency. The month-end demand, however, was somewhat larger than usual, and probably indicated withdrawals of currency incident to bank suspensions in certain parts of the country, particularly in Ohio.

The total volume of domestic hoarding by individuals remains in the neighborhood of $1,150,000,000 to $1,200,000,000. There has been an increase since the middle of October, obscured somewhat by seasonal movements, by reductions of cash held in the vaults of member banks, and by the return of American currency from abroad during the latter part of October. The increase in hoarding since mid-October has probably been $60,000,000 to $75,000,000 and was concentrated in the period between October 14 and October 21. Since that time there has been relatively little net change in the amount of hoarded currency.

Member banks have reduced their holdings of vault cash gradually since the middle of October, and on November 4 reporting member banks held $14,000,000 less than on October 14. The reduction centered in the New York, Chicago, and Boston districts, while in the Cleveland district banks increased their holdings, and in Philadelphia they retained the large cash holdings accumulated during early October.

Return of American currency from abroad, amounting to about $10,-000,000 net in October, has been another factor in the flow of currency into the reserve banks. This movement is described in detail in the attached memorandum.

Division of Research and Statistics November 12, 1931

FOREIGN SHIPMENTS OF AMERICAN CURRENCY

Movements of American currency in and out of this country are reported monthly by eleven large New York banks. These reports are incomplete, especially as to exports of currency, but they do give some indication of changes in the direction of our currency movements. It would appear from these reports that the outflow of American currency to foreign countries, which had been exceedingly rapid from June to September, was suddenly reversed in October when a return of more than $12,000,000 was reported. This is the largest shipment on record for a single month, exceeding even the shipments following the stabilization of the German mark in 1924. It is probably another phase of the "flight from the dollar" which began in Europe early in October when foreign holders of dollar assets were converting them into other currencies or into gold. In Poland, in particular, individuals who had hoarded American money sold it to the banks, which returned it to the United States. A dispatch from Warsaw to the New York Times on October 9 reported:

> "Long lines of people waiting outside the banks to get rid of dollars, which were readily bought." and "Confidence in the dollar seems to be shaken in Poland, where for the last thirteen years United States currency has played the part of metallic gold as coverage for Polish currency. ... The entire populace, even the humblest peasant, hoarded dollar notes and the amount circulating in Poland is estimated at $50,000,000 to $60,000,000."

and on October 12

> "A week-end 'flight from the dollar', which caused $5,000,000

in American banknotes to change hands in a scramble occasioned by rumors, was checked today ... "

Movements of American currency to and from Europe are shown on the chart on the following page.

From June to September American currency was in great demand in Europe because of the general feeling of insecurity following the financial crises in Austria, Germany, and England. The outflow from this country aggregated over $30,000,000 in four months, compared with $1,760,000 in 1929, a more normal year in this respect. The fact that almost no American money returned to this country during this period is further evidence of the value attached to it in Europe at that time.

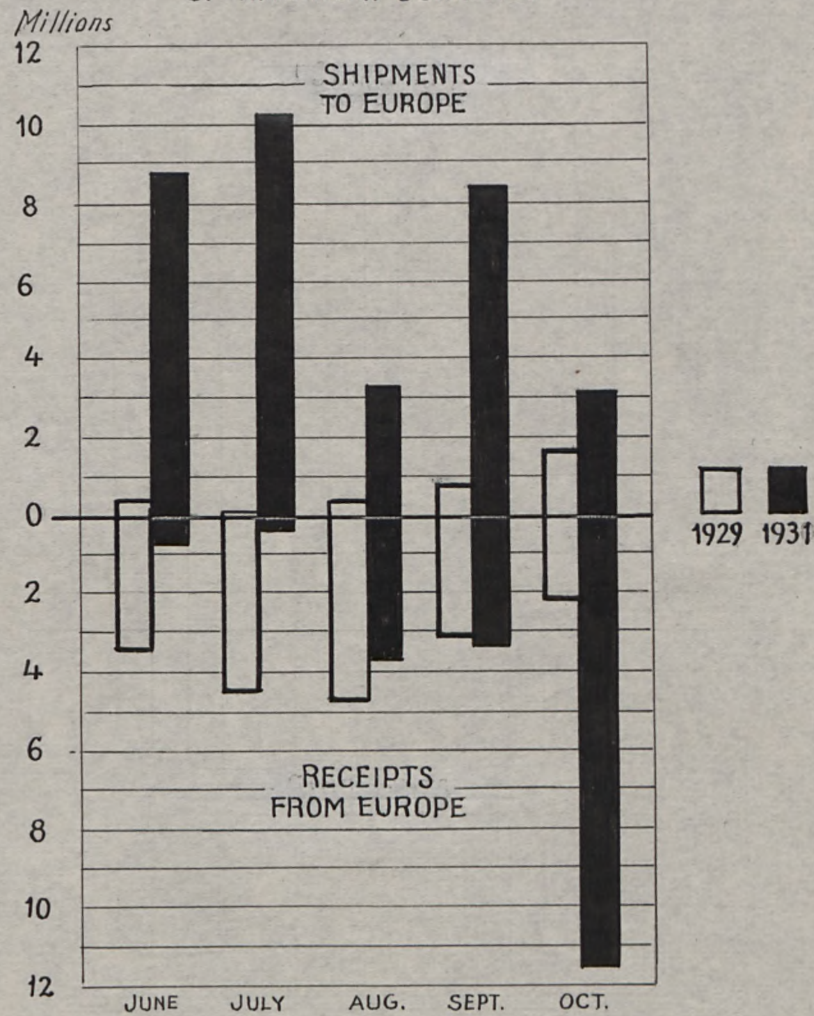
In October, however, fright over the possible abandonment of the gold standard by the United States suddenly reversed the movement. The flight from the dollar was most severe in the early part of October, and began to subside after the middle of the month. The arrival of currency at American ports, of course, lagged behind the accumulation of American money by foreign banks.

The largest shipments to this country during October came from Germany, Switzerland, France, Holland, and Poland. This is shown in the table on the next page, which also gives total shipments and receipts by these countries in the preceding four months both in 1931 and in 1929. In the case of France, Holland, and Poland, shipments in October were concentrated almost entirely in the last half of the month, apparently resulting from the flight from the dollar, and the return flow from Germany, which had been going on since August, was unusually large.

This repatriation of American currency contributed to the decline in the volume of money in circulation toward the end of October. A net of ten million dollars is known to have been shipped in from all countries through reporting banks in New York, and it is probable that total receipts through all sources were larger. It is probable, therefore, that the increase over the year in American currency, which we previously estimated at between $50,000,000 and $60,000,000 is now between $40,000,000 and $50,000,000.

G.J.

EUROPEAN RECEIPTS AND SHIPMENTS OF AMERICAN CURRENCY



Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 16, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

EAG

2—8495

Persons has sent another report, which I transmit. I wonder how Persons was able to get the confidential figures about balances in the United States by countries?

CONFIDENTIAL REPORT OF NOVEMBER 13, 1931

Perhaps the leading market influence of the past week has been apprehension that Germany would declare a moratorium on private debts. Such a moratorium, if declared, would mean direct losses for domestic banks and others holding German obligations and adverse indirect repercussions. A moratorium by Germany on intergovernmental debts, under the Young agreement, I believe, would not be construed to be unfavorable marketwise.

The important factors bearing upon the question of a moratorium on private debts are
- (a) The amount of payments that Germany is currently obliged to make under the "stillhalten" agreement which expires February 29;
- (b) The attitude of France toward these payments on private account; and
- (c) The political situation in Germany.

(a) GERMAN SHORT TERM-OBLIGATIONS

Total external obligations	$1,800,000,000	(of which 5,100,000,000 Reichmarks are frozen under the "stillhalten" agreement)
Used in:		
International acceptances	600,000,000	
Domestic "	360,000,000	
Open accounts	840,000,000	(of this about $280,000,000 remains on deposit in foreign lending banks)

Under the "stillhalten" agreement 25% of foreign balances in Germany may be withdrawn between September 15 and October 15, and 15% per month thereafter. Foreign bank deposits on September 15 were between 7 and 8 hundred million Reichmarks. Germany has made over-payments on current accounts to date (a) to the United States because funds could not be used in approved manner in domestic trade and (b) to England because the drop in sterling makes such payments advantageous to Germany. Germany has recently adopted measures to prevent "illegitimate" conversion of foreign held assets into bank deposits and withdrawal under the 15% provision.

By November 15 Germany must pay the world 110,850,000 Reichmarks (Dr. Palyi says that a portion of this payment has already been made). Of the total, 18,300,000 is due citizens and banks of the United States.

It would seem not difficult for Germany to make these payments.

(b) THE FRENCH ATTITUDE

France has been insistent on giving intergovernmental debts priority. She desires, however, to have Germany continue service on the German 5½s and 7s. France has been historically an unyielding creditor, standing on the "word of the law." A news report dated "London, Nov. 12" states that France has forced Germany to agree "not to make use of her private indebtedness as an argument in favor of postponement of the official reparation payments." Under the date "Paris, Nov. 12" French papers estimate an increase of the unemployed to 300,000~~,000~~ - 1,000,000 (various estimates); they view the French industrial situation with alarm. It is not unlikely that the arrival of acute depression in France will make them more tractable in the French-German intergovernmental and private debt negotiations. Italy's influence (lira at 5.16½, par 5.2631 cents), as well as that of England, will be for priority of private payments.

(c) GERMAN POLITICAL SITUATION

I have heard conflicting reports from recent visitors to Germany. My reaction is that no immediate political upheaval is in sight unless it is forced by France.

FIGURES FOR <u>NET</u> CURRENT BALANCES IN UNITED STATES (NOV. 5)

Due to	England	$117,000,000	
	France	596,000,000	
	Germany	38,000,000	(90% bank balances)
	Italy	45,000,000	
	Netherlands	44,000,000	
	Other European	189,000,000	
		$1,029,000,000	

If we had similar figures for all leading commercial countries the international financial status would be greatly clarified.

Warren M. Persons

Warren M. Persons
Consulting Economist
345 Hudson Street
New York City

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 17, 1931

To Governor Meyer

Subject: Demand for Currency

From Miss Joy

O.J.

2—8495

Currency outstanding has decreased during the past week, and on Saturday, November 14, was $5,530,000,000. The decline of $26,000,000 from the preceding Saturday is about the usual amount for this time of year. The continued return of cash from bank vaults has contributed to the recent decline in the volume outstanding.

Vault cash held by reporting member banks in leading cities on November 11 was $10,000,000 less than a week earlier. The largest reduction was in the New York district; and there was also some return in the disturbed Philadelphia and Cleveland areas. A part of the gold coin withdrawn by New York banks for domestic circulation has recently been re-deposited at the New York Federal Reserve Bank. In magnitude, this is not important--about $8,000,000 since October 28--but it is important as an indicator of the passing of panic psychology.

During the current week there is usually a further decline in the demand for currency, amounting in past years to $25,000,000 or more from Wednesday November 11 to November 18. The Thanksgiving Day holiday in the following week, however, will occasion substantial withdrawals.

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Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date November 18, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser E.A.G.

2—8495

I transmit herewith a table that I thought might be of interest to you, showing the distribution of real estate mortgages in the United States, exclusive of mortgages held in trust to secure bond issues. It may be estimated that mortgages back of bond issues amount to $7,000,000,000 or $8,000,000,000 of which $5,000,000,000 or $6,000,000,000 are on urban real estate. Farm mortgages so held are almost entirely held by the Federal Farm Loan System. The estimates in the table include junior liens.

DISTRIBUTION OF REAL ESTATE MORTGAGES 1/

Estimated for June 30, 1931

(In millions of dollars)

	Total	Urban	Farm
Total outstanding	39,750	32,200	7,550
Held by institutions	31,750	27,200	4,550
Banks	11,650	10,700	950
Member banks	3,250	2,850	400
Mutual savings banks	5,900	5,850	50
Other non-member banks	2,500	2,000	500
Institutions other than banks	20,100	16,500	3,600
Building and loan ass'ns.	7,750	7,750	...
Insurance companies	7,750	5,750	2,000
Mortgage companies and others	4,600	3,000	1,600
Held by individuals	8,000	5,000	3,000

PERCENTAGE DISTRIBUTION

	Total	Urban	Farm
Total outstanding	100.0	100.0	100.0
Held by institutions	79.9	84.5	60.3
Banks	29.3	33.2	12.6
Member banks	8.2	8.9	5.3
Mutual savings banks	14.8	18.1	.7
Other non-member banks	6.3	6.2	6.6
Institutions other than banks	50.6	51.3	47.7
Building and loan ass'ns.	19.5	24.1	0.0
Insurance companies	19.5	17.9	26.5
Mortgage companies and others	11.6	9.3	21.2
Held by individuals	20.1	15.5	39.7

1/ Exclusive of mortgages held in trust for bond issues.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 19, 1931

To Governor Meyer ✓

Subject: The decline in the Volume of Money in Circulation

From Miss Joy

a. J. EAG.

GPO 2—8495

The decline of $46,000,000 in the volume of currency outstanding from November 11 to November 18 is somewhat larger than usual. There has been a reduction of $25,000,000-$35,000,000 in this same period in recent years, eliminating for purposes of this comparison the years 1929 and 1930 when the stock market collapse and bank failures resulted in unusual movements of currency.

Circulate

EOV. Meyer

Form No. 131

Office Correspondence

For CIRCULATION:

Mr. Hamlin ✓
Mr. James ✓
Mr. Magee ✓
Mr. Miller ✓
Mr. Pole
Mr. Harrison ✓
Mr. Morrill ✓
Mr. McClelland ✓
Mr. Wyatt ✓
Mr.
Mr.

Please note - initial and return to DIVISION.

FEDERAL RESERVE BOARD

Date November 23, 1931

To Mr. Goldenweiser

From Miss Joy

Subject: Foreign Shipments and Receipts of Currency

A.J.

American currency returned from abroad in the first half of November ($3,560,000) was considerably smaller in volume than in the last half of October, but larger, nevertheless, than shipments to this country in the entire month of November in other recent years. As usual, the bulk of the return flow was from Europe, with shipments from Germany, Switzerland, Poland, France, and England continuing in large volume. In all probability shipments during November were from stores of American money collected at the time of the flight from the dollar, or shortly thereafter; there is no indication that American currency is now under suspicion. In Poland, certainly, the dollar panic is over.

The total shipped back to this country from October 1 to November 15 is $15,800,000. The net inflow amounts to $11,800,000. In the first half of November very little American currency ($300,000) was shipped abroad.

Recent transactions in American currency have been concentrated in the hands of a very few New York banks. Only three out of the 11 reporting banks had any dealings during the first half of November, in contrast to 10 in October.

97

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 28, 1931.

To Governor Meyer

Subject:

From Mr. McClelland

GPO 2—8495

In accordance with the suggestion at the meeting on Wednesday, there is given below, for your information, a resume of the consideration which has been given by the Board in recent years to the matter of procedure in the establishment of effective buying rates on bills:

At the meeting of the Board on January 3, 1929, following receipt of advice from the Federal Reserve Bank of New York of a change in the schedule of effective buying rates at that bank, discussion was had with regard to the procedure which has grown up whereby, after approval by the Board of a minimum rate, currently effective rates are established by the bank without prior reference to the Board, and it was the consensus of opinion that such rates should be established subject to the review and determination of the Board in the same manner as rates of discount, and that the present procedure should be revised. The need of a change in the present procedure was discussed further at the meeting on January 4, 1929, and the Governor was "requested to prepare for action by the Board, draft of a regulation superseding all existing regulations or practices governing bill rates, which will make all rates subject to review and determination by the Board in the same manner as discount rates are now subject to review."

Occasioned by an advance in the schedule of effective buying rates at the Federal Reserve Bank of New York, at the meeting of the Board on February 15, 1929, Governor Young was authorized, on the occasion of his next visit to New York, to discuss with the directors of the New York bank the formulation of a procedure under which buying rates could be considered by the Board before they are made effective by the bank. At the meeting on March 21, 1929, the Governor reported that he had discussed the matter with Deputy Governor Kenzel who advised him-that, in his opinion, in ordinary times the bank could operate if it were authorized to adjust the bill rate within 1/2 of 1% under the discount rate, but at that time, with the bill market so uncertain, he did not feel anything could be done except to follow the market rates. At the same meeting Governor Young suggested that it would be desirable to have a conference with the directors of the Federal Reserve Bank of New York for a full exchange of views regarding the matter. This suggestion was taken up with the New York directors through Governor Harrison, and on June 5, 1929, Messrs. McGarrah, Mitchell, Reyburn and Treman met with the Board, but as the matter of an increase in the discount rate of the New York bank was of first importance at that time, there was no discussion of procedure in connection with the establishment of buying rates on bills.

At the meeting of the Board on August 10, 1929, following further discussion of the present procedure, Mr. Miller submitted the following memorandum as a basis for discussion of a new temporary procedure with regard to the determination of buying rates on bills by the Federal Reserve Board:

"1. The successful application of the general lines of credit policy adopted by the Board at the conclusion of the recent conference with the Governors depends largely if not mainly, upon the degree of accuracy with which purchases of bills are adjusted to the trend of conditions from week to week and possibly sometimes during short intervals.

2. The matter is one of too much importance, involving as it does the application of a national policy, to be left to the determination of the Reserve Bank of New York even though the great bulk of the bills will originate and be offered there. It should have the joint attention of the Federal Reserve Board and such other leading reserve banks beside New York as can conveniently be consulted.

3. For this purpose, some temporary working arrangement during the remainder of the year seems desirable. Later, when the Reserve System is on a more normal basis of operation, a change in the working arrangement can be made, better adapted to ordinary conditions. That is a matter that might well be considered at the autumn conferences of banks with the Board.

4. Change of rate being the method by which the flow of bills to the reserve bank is chiefly regulated, constant attention will have to be given to the rate at which offerings of bills are coming under any given rate, with the view of determining whether they are coming too rapidly or too slowly to satisfy the objectives of the System's autumn policy.

"5. The bill rate should, therefore, be under constant review by the Board, with power in a committee or in the Governor of the Board to authorize and approve changes in buying rates in accordance with the views of the Board or in accordance with sudden changes of conditions which call for immediate action.

6. It is suggested that the Board should begin the autumn policy by determining the lower limit of the buying rate of bankers acceptances at 5% - this rate to remain in effect until changed by joint action of the banks and Board. Changes in the actual buying rate above the 5% rate could, as suggested above, be made by a committee of the Board or by the Governor alone, should the committee not be promptly available. In order that the committee should be fully informed on conditions suggesting a change of rate, the Governor should keep in close touch with reserve banks as far as practicable.

7. Consideration should be given to the authorization of buying rates under 5% in districts outside of New York on acceptances originating within the districts, as long as they have 5% discount rates."

This memorandum was made the special order of business at the meeting on August 15, 1929, at which time further discussion was had with regard to the possibility of working out a new procedure. Governor Harrison and Mr. Kenzel were present and outlined to the Board the desirability of continuing to give the operating officers of the New York bank some leeway in the matter of changing effective bill rates. Governor Harrison suggested that the minimum rate authorized by the Board should have some relation to the discount rate of the bank, running in normal times 1/2% below the discount rate with a maximum 1/2% above that rate. Governor Young suggested a procedure along the following lines:

"That the Board authorize a minimum rate of 5% and a maximum rate of 6%, that the Board then give to the Executive Committee or the Executive Officer authority to approve effective rates within the minimum and maximum approved by the Board; and that the operation of the bill policy be left to the officers of the New York Bank until a point is reached where the New York directors or the Board feel that bills are being accumulated too rapidly or too slowly, in which event the matter of a change in the effective rate, and if necessary, the minimum and maximum rates would be brought up for discussion."

As a result of the discussion at this meeting, it was voted:

"That in the absence of a quorum of the Board the Executive Committee, or in its absence, the Executive Officerof the Board be authorized to approve effective buying rates within the limits of a 5% minimum and the 5-1/2% maximum, excepting the Federal Reserve

"Banks of Dallas and Atlanta where 4-7/8% and 4-1/2% rates are now in effect on short maturities and the Federal Reserve Bank of Richmond, where a rate of 5-5/8% has been established on long maturities, such rates applying to bills originating in the respective districts."

At the meeting of the Board on October 28, 1929, Mr. Miller moved that the action taken at the meeting on August 15, 1929, be amended to read as follows:

"That no change in bill rates shall be effective until after approval by the Federal Reserve Board and that in the absence of a quorum of the Board, the Executive Committee, or in its absence, the Executive Officer of the Board, be authorized to approve effective buying rates within such minimum and maximum rates as may be approved by the Board."

Action on Mr. Miller's motion was deferred at that meeting, and, while there have been numerous discussions of the matter since that time, no further action has been taken by the Board.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 4, 1931

To Governor Meyer

Subject: Money in Circulation

From Miss Joy

GPO 2—8495

The increase of $32,000,000 in the volume of currency outstanding between November 25 and December 2 is larger than in this period in other recent years, exceeding the typical figure by $15,000,000 to $20,000,000. It is difficult to explain this comparatively large increase; there have been no bank suspensions of any consequence, and it seems unlikely that private hoarding has increased. The relatively small currency demand in the week before Thanksgiving may have resulted in larger withdrawals during the week just past, for use in holiday shopping, which is already beginning.

RECEIVED
DEC 5 1931
OFFICE OF
THE GOVERNOR

December 10, 1931

To: Governor Meyer

From: Miss Joy

a.J. [signature]

Decline in the Demand for Currency

For CIRCULATION:
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr. Harrison
Mr. Morrill
Mr. McClelland
Mr. Wyatt
Mr.
Mr.
Please note - initial and return to GOVERNOR.

The decline of $2,000,000 in the volume of money in circulation during the week ending December 9 is very unusual for this season of the year, when there is ordinarily an increase of about $45,000,000. It indicates a continued reduction in the unusual demand for currency, which reached its peak early in November. The extent of the return flow in the past four weeks is about $100,000,000, after allowance for the increased demand for holiday purposes which is to be expected in late November and in December. This is illustrated by the chart, which compares changes in the volume of currency outstanding from November 4 to the end of December in the years 1924-1926* and in 1931. The spread between the two curves-- about $100,000,000 on December 9--is a rough measure of the amount of the recent return flow.

An indeterminable part of this decline in demand--but certainly not less than $10,000,000--represents repatriation of American money held abroad, and a part represents a reduction in banks' holdings of vault cash. For reporting member banks in leading cities holdings of vault cash declined by $28,000,000 between November 4 and December 2.

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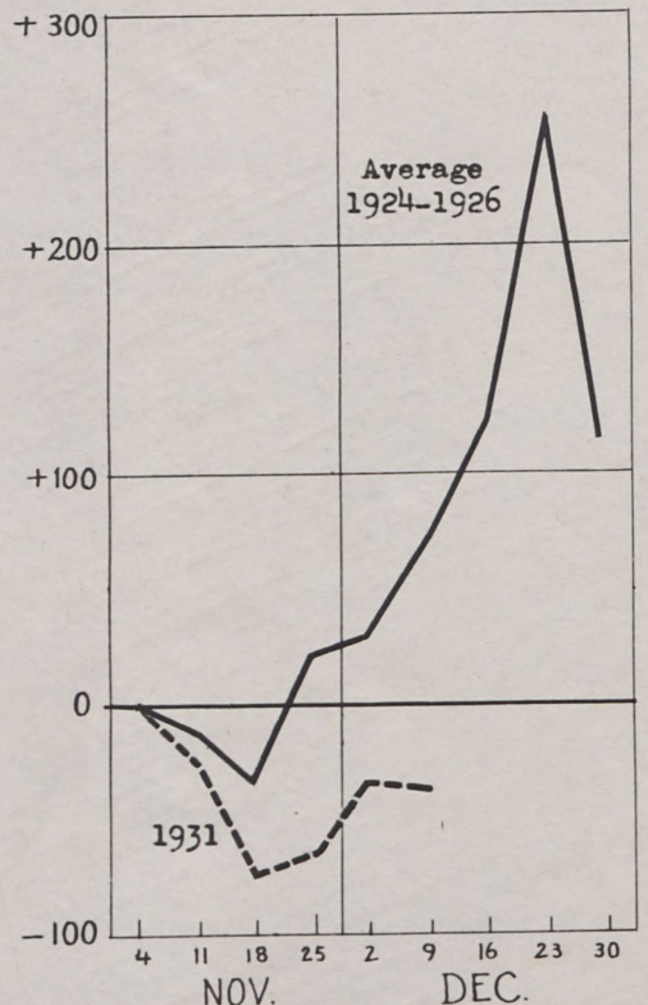
*The average of the years 1924-1926 is used because the Thanksgiving holiday came at about the same time in those years as in 1931 (November 26) and because the long-time downward trend in the volume of money in public use had not begun at that time.

CUMULATIVE

CHANGES IN THE DEMAND FOR CURRENCY

November 4 to December 30

(In millions of dollars.)



Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 11, 1931

To Governor Meyer

Subject: Tax on checks

From Mr. Goldenweiser EAG

2—8495

I notice that the Secretary of the Treasury includes in his list of tax recommendations a two-cent tax on checks. I think that the adoption of such a tax would be highly undesirable, because it would discourage the use of bank accounts. At this time, particularly, when the problem of currency withdrawals has been a serious one, it would seem to be unwise to adopt a tax that would encourage people to keep their money out of the banks. This tax would also have a tendency to counteract the long-time trend for an increased use of checks, particularly in payrolls, as big corporations would hesitate to pay their help by check, if each check were to cost them two cents. This would have the effect of increasing the amount of money in circulation and, therefore, would make inroads on the reserves of the reserve system.

It has been generally agreed in the last few years that it is desirable to encourage a greater use of checks as a means of economizing gold, and it would seem to me unfortunate for this country to take a step in the opposite direction.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 29, 1931

To Governor Meyer

Subject:

From Mr. Goldenweiser

2—8495

I am sending you a copy of an economic program for 1932 which I have just received from Warren Persons. In sending it to me, he says the following:

"I am sending you two copies of the latest revision of the 'Economic Program' which has been sent to some fifty leading economists for their acceptance and endorsement. One copy is for yourself, the other for the Governor. This last revision was made after submission to 'key' people here. I will tell you the whole story when I see you.

"In the very near future (I expect by February 1) I will establish a separate office as an independent Consulting Economist without connection, except to utilize their material or services, with any financial publishing organization. An obstancle to perfectly frank discussion between the Governor and you, on the one side and me, on the other, will thus be removed."

AN ECONOMIC PROGRAM FOR 1932

WE BELIEVE that the following are the important basic facts of the present situation:

1. General contraction of credit and deflation of prices have gone far enough.

2. Normal and special agencies created and being created for the relief of banks, business, agriculture, railroads, etc., will meet successfully any critical situation that may develop.

3. The United States can have a substantial business recovery without waiting for a solution of Europe's difficulties or those of the rest of the world.

4. Business recovery in this country will lay a firm foundation for the solution of the financial difficulties at home and abroad.

5. Business recovery can begin and proceed on a sound money basis without recourse to panaceas.

6. The replacement of abnormal habits by ~~non~~ more normal habits of conducting business and of spending, saving and investing by all classes of our population--wage-earners, manufacturers, distributors, bankers--will, of itself, increase employment and inaugurate and accelerate business recovery.

THE FOLLOWING RECOMMENDATIONS, therefore, are made to expedite the return of normal business and employment:

1. Put hoarded money to work, safely and profitably.

2. Purchase sound securities as one way of putting money to work, safely and profitably.

3. Manufacturers and distributors should cease curtailing their operations and purchase materials, replenish inventories and employ labor in accordance with more normal requirements.

4. Banks should resume their normal lending and investing policies in the sound conviction that
   a. A steady expansion of bank credit is necessary and normal;
   b. Further contraction of bank credit would be unwise and unprofitable.

5. The Federal Reserve System should pursue a liberal open market and discount policy.

December 25, 1931.