

STATEMENT FOR THE PRESS
Not to be released for
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Delays in issuing the Federal Reserve Bulletin, the monthly publication of the Federal Reserve Board, because of the congested condition of the Government Printing Office, have led the Board to adopt the practice, for the present, of issuing a brief outline of the contents of the Bulletin.

The October number of the Bulletin will contain an unusual quantity of new material, relating not only to the important work of the Federal Reserve Board, but to banking and financial conditions generally and also to underlying economic conditions.

A striking feature of the Review of the Month in the current number is the analysis made of the various steps which are being taken by the War Industries Board, the War Labor Board and the Provost Marshal General to place the industry and man power of the country upon a war basis and the helpful and welcome bearing which these changes in the industrial organization of the country will have upon the financial and banking situation.

Especial attention is given to the system of "priorities" inaugurated by the War Industries Board for facilitating the rapid expansion of essential industry and for limiting the output of unessential industry. The system is in effect one of rationing the producer and, therefore, indirectly the consumer, by an apportionment of fuel, power, material, transportation, and labor among industries in accordance with their estimated importance with reference to the nation's war time requirements. The financial effect of this policy of rationing industry is described in the Bulletin as the "Control of banking and credit expansion at the source", and as such is expected to have very much more definite and decisive effects than the policy of curtailment of credit coupled with voluntary rationing, which necessarily had to be the main reliance of the country in the absence of a more direct and authoritative control.

In this connection, the Bulletin remarks that "The existence of large quantities of goods produced by industries which of necessity have to make demands upon the banks of the country for the credit needed to maintain them implies a continuous effort to obtain from bankers a favorable decision on the question whether the maintenance of such businesses is or is not essential. This question is always difficult to answer in any definite way, but the difficulty of giving such an answer is much increased when the plant and goods whose future is to be settled by the banker's decision are already in existence. The policy which is much more likely to be effective is that of determining what goods shall and what goods shall not come into existence. This operates not only to the end designed by the War Industries Board -- that of conserving men, fuel, transportation and materials -- but as already indicated, and what is of most immediate concern to the Federal Reserve System and the strength and soundness of our whole banking situation, also conserves credit and thus reduces the likelihood of expansion of banking credit running an uncontrolled course".

On the subject of the recent rapid increase in the volume of outstanding Federal Reserve notes, the Bulletin states:

"GROWTH OF FEDERAL RESERVE NOTES.

"Apprehension having not infrequently been expressed in recent months at the rapid increase of the volume of Federal Reserve notes, the following table is presented to show the outstanding volume of gold coin and certificates, Federal Reserve notes, and Federal Reserve bank notes, and all other forms of currency issued in the United States, for selected dates:

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"TOTAL MONEY HELD OUTSIDE THE UNITED STATES TREASURY AND
THE FEDERAL RESERVE SYSTEM ON FEB. 1, 1917 AND SEPT. 1, 1918.

	Feb. 1, 1917	Sept. 1, 1918
Gold coin and gold certificates.	\$1,923,388,291	\$913,282,661
Federal Reserve notes and Federal Reserve bank notes.....	251,944,910	2,111,896,668
All other currency	<u>1,731,139,217</u>	<u>1,627,467,179</u>
Total.....	3,916,472,418	4,652,646,508

	Increase	Decrease
Gold coin and gold certificates.	- - -	\$1,010,105,630
Federal Reserve notes and Federal Reserve bank notes	\$1,849,951,758	- - -
All other currency.....	- - -	<u>103,672,038</u>
Total	736,174,090	- - -

"It should be noted that the figures given above relate to coin and currency not held in the Treasury or in the Federal Reserve System, these, properly speaking, constituting no part of the outstanding circulation in actual use as currency. It should also be noted that between February 1, 1917, and September 1, 1918, there was a decrease in the "outstanding" volume of gold and gold certificates, offset by a substantially commensurate increase in the holding of gold by the Federal Reserve System, to the extent of about a billion dollars. There has also been a slight decrease in the outstanding volume of other forms of currency, with the result that the net increase in the ^{total} outstanding volume of currency between the two dates has been, in round numbers, \$736,000,000.

"The fact that at the beginning of the month of September there were outstanding about \$2,100,000,000 Federal Reserve notes (increased by the end of the month to \$2,300,000,000) has led to hasty inferences regarding the volume and condition of the country's currency since the Federal Reserve note became the most important constituent of its circulation. The truth is that, while there has been a material increase in the country's total circulation, the increase is far from commensurate with the figures for the increase of Federal Reserve note circulation. What has been overlooked by careless observers is that an important change has been taking place in the composition of our circulating medium by the substitution in large volume of the Federal Reserve note for the gold certificate.

" Moreover, to get a faithful picture of the situation, deduction from the total figures should be made of the normal increase in circulation, which would, in any case, have taken place. Based upon comparative figures of population this normal increase in currency would have been about \$100,000,000, so that the residual figure representing the growth of our circulation is reduced to about \$636,000,000. But even from this figure deduction should be made if a full statement of the situation were to be attempted, because of the increased activity of industry, measured not simply by value of output but also by physical volume. Allowance should also be made for the very considerable amounts of currency which, it is understood, are being carried on their persons by prosperous wage earners who have not developed the banking habit.

" There should furthermore be deducted the currency consisting largely of Federal Reserve notes which has been drawn from the United States in substantial volume (probably in excess of fifty millions since September, 1917) for use notably in Canada, Mexico, and Cuba. Finally, the fact that the period of the year in which the most rapid increase in the issue of Federal Reserve notes has occurred synchronizes with the crop-moving season and that at a time when the prices of all agricultural staples rule abnormally high, may be taken as indicating that the increase in the circulation of the Federal Reserve note has been in the main in response to actual needs. In consequence of all of which whatever inflation of prices may be said to exist cannot : properly be said to have been induced by the overissue of Federal Reserve notes."

The October number of the Bulletin prints for the first time a new index number carefully designed to show the movement of wholesale prices. This index number has been developed in the statistical department of the Federal Reserve Board and is based upon data supplied by the Bureau of Labor. It has been particularly designed to quickly reflect changes in the trend of business conditions.

A valuable collection of material relating to the conservation of resources, credit, and banking funds, is given a prominent place in the issue. Careful analysis of the condition of the savings banks with respect to holdings of Liberty Bonds and certificates of indebtedness furnished by the savings banks section of the American Bankers' Association is also published at length. A reprint of the recent British report on bank amalgamations is intended to render the substance of this important document available to American bankers. Complete description of the foreign business of the National City Bank of New York constitutes the third of the Board's series of studies of American foreign banking institutions.

As usual the Bulletin contains authoritative reports of business conditions and payments by banks throughout the country, legal opinions, and informal rulings, relating both to commercial paper and Foreign exchange.