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The Federal Reserve Bulletin for the month of November contains detailed studies of the present debt situation in the United States and foreign countries, with special reference to the banking situation as affected by loans on war paper and the use of the purchasing power thereby created. This subject is fully discussed in the Board's Review of the Month which analyzes the effect on prices of the failure of our population to save, as evidenced by the increase in loans collateralled by Government securities. As in former issues, the Board urges a resort to more intensive saving in order to absorb the new bonds more rapidly and in larger measure in order that the credit granted by the banks may not remain too long outstanding and thereby tend to increase prices.

"In the last issue of the Federal Reserve Bulletin evidence was submitted to show that the belief in a great inflation of the currency has relatively little to support it. It is, in fact, not the issue of notes, but the creation of deposit credits on the books of the banks, for the purpose of enabling borrowers to buy and carry Government bonds and rendered necessary because of the failure of the public to save sufficiently, that creates the buying power which advances prices. The following figures show in an approximate way the progressive increase in the deposits and investments of the banks, both member and Federal Reserve, as well as the declining ratio of reserve to outstanding liabilities of the latter, which is a consequence of borrowing instead of more intensive saving:

	Investments		Deposit liabilities		Reserve percentage of Federal Reserve Banks
	Federal Reserve Banks	Reporting member banks	Federal Reserve Banks	Reporting member banks	Per Cent
June 22, 1917	$ 552,649	$ - -	$1,241,210	- -	71.6
Nov. 9, 1917	788,538	11,562,007a	1,407,547	$9,636,993a	69.4
Apr. 18, 1918	1,286,162	12,405,743	1,556,303	11,278,704	61.3
Oct. 14, 1918	2,154,832	- -	1,580,802	- -	51.1

a. Figures of December 7 for 653 reporting banks. Deposits, exclusive of Government deposits.

"Precisely what effects may be expected from this process of credit expansion should be definitely understood in order that the Nation as a whole may choose between the policy of steadily adding to its outstanding bank obligations and that of curtailing them by regularly reducing its indebtedness through saving and the cancellation of its borrowing at the banks. The Board, in a former issues of the Bulletin, has defined inflation as the increase of current purchasing power, "whether in the form of actual currency or in the form of credit - faster than the volume of available goods", and this is manifestly the process which is now going on as a result of methods of subscribing and paying for Government bonds, which are not based upon real savings.

"Probably the feature of the present financial situation of the country which most requires correction is this increase in disposition on the part of the public to rely too largely upon the banks as sources from which to obtain the necessary funds for use in financing the requirements of the Government. ********** In order to provide for the taking up of additional loans when offered, it will be inevitably necessary that the public address itself with greater earnestness to the problem of saving and applying its income to public requirements. Advices from many quarters show that while progress is being made in this matter, the mounting necessities of the Government are equally conclusive evidence to the effect that what has already been done must be continued and added to and that further and more successful efforts must be made if the banks are not to be obliged to take and hold an undue proportion of the obligations issued by the Government.

With reference to the question of prices and credit expansion, the following statement is made:

"The relation between prices and credit expansion has been frequently referred to by the Board, but may be restated somewhat as follows: Bank credit when granted by commercial institutions upon the strength of, or for the purpose of, liquidating commercial transactions of early maturities, serves as a means of facilitatiing the flow of commodities from producer to consumer and the return of purchasing power from the consumer to the producer through the various channels of circulation. This process enables goods to act as a means of purchase and payment for other goods, and when the maturity of the average loan granted (or "credit" allowed) is no longer than that of the productive processes in which the community is engaged, the effect of it is only that of facilitating and promoting production and distribution. When the loans granted or credit extended by the banks are in excess of the normal value of the goods offered for exchange, there is brought into existence an additional or surplus volume of purchasing power which has the same effect upon the prices of commodities as does a corresponding addition to the money supply, inasmuch as it may be offered for commodities and may thus create a demand for them. Credit wxpansion becomes inflation when the increase of prices it produces brings no commensurate or offsetting increase of production."

The relation between the reserve situation and inflation is discussed in the following passage:

"The reason why the public, and especially the banking community, looks with so much interest to the reserves of the banks is understood when the nature of credit inflation is carefully considered. Ordinary extension of credit made for the purpose of facilitating the exchange and circulation of goods require little or no addition to the reserve funds of the banks, because the credits thus granted in the main offset and cancel one another, leaving an unimportant margin to be redeemed in cash. When the credit structure of the community is enlarged by the extension of bank loans not accompanied by a corresponding increase in production and the proceeds are employed in the way just described for the purchase of commodities or for buying them away from the consumers who would otherwise purchase them, the claims to the bank credit thus brought into existence keep on passing from hand to hand. The Government transfers them to contractors who furnish it with goods and to persons who supply it with services. Both these classes pass on the credit claims to others in exchange for goods which they desire and they remain outstanding, representing in effect an addition to the purchasing media of the community. There is no means of permanently canceling or digesting such outstanding credits except one - their use by those into whose hands they come for the purchase of the securities against which the credits were extended, notably Government bonds in our present situation. Ordinary commercial credits furnish their own means of cancellation through the maturing of the paper upon which they were based and the completion of the productive process to finance which they were extended. Credits based upon noncommercial operations or investment securities possess no such quick self-reducing quality. As they increase, therefore, they tend to make a more or less lasting addition to the outstanding volume of bank liabilities and thereby increase the superstructure of bank credits which rests upon the underlying reserve money of the country.

"During the last year, there has been a decrease in the percentage of gold cover to the aggregate banking liabilities of the country, mainly the result of the process above outlined. This decline has not been occasioned by any falling off in the aggregate gold holdings of the American banking system, which indeed have shown some increase. It is due altogether to the rapid increase in the outstanding volume of bank liabilities. It is this feature of the situation which gives to the decline of the gold percentage its significance. That is to say, the decline of this percentage is an important index of our changing position, not because of any inadequacy of gold but because of undue or disproportionate expansion of the credit structure which the gold reserve of the nation is required to support and protect in consequence of inadequate saving by the people.

"Decline of the reserve percentages of the central banking institutions has been a general phenomenon in all of the belligerent countries since the opening of the war and has everywhere been admitted to be undesirable. As shown in the studies of public debt and currency, published elsewhere in this issue of the Bulletin, it reflects the disposition of these countries to rely upon borrowing and when necessary upon direct borrowing from the banking institutions - the public being either too little able or too little willing to furnish out of its current consumption either in the form of taxes or of direct loans to the Government the sums necessary to avoid credit inflation and to hold reserves at a normal percentage level. The great gold strength of the United States largely due to the heavy accessions to our national stock of gold in the two years preceding our entry into the war, has, it is true, placed this country in an exceptional and peculiar position; and to this extent the character of the credit inflation experienced in the United States differs from that existing in other countries and has been less easy to realize. But it would be a mistake for us to proceed on the assumption that inflation in the United

States is, therefore, different in its essential character from what it is elsewhere. Here, as elsewhere, the decline in percentage of reserve holdings to outstanding liabilities reflects the relative increase of the latter as compared with the means of their direct conversion on demand and the problem presented is the problem of controlling the growth of banking credits."

Besides the studies of public debt at home and abroad already referred to, the November Bulletin contains a collection of data designed to show progress in the rationing of credit and productive power in this and other countries. Another of the Board's series of monographs on foreign banking conditions is also presented, this time with reference to the business of the First National Bank of Boston. Wholesale price index numbers and further material for the study of business conditions are also contained in this issue. Rulings as to commercial paper and foreign exchange and opinions of counsel are also published. Reports of business conditions furnished by Federal Reserve agents are unusually complete and may be summarized as follows:

General activity of business throughout the United States is reported by practically all Federal Reserve agents. Owing to Government restriction of manufacturing and production, this activity is more and more confined to a comparatively small number of lines in which the industry of the country is being specialized.

The condition of agriculture is almost uniformly reported as promising. Returns from the old crops of staples, including grain of all kinds, cotton and tobacco, promises to be most satisfactory, notwithstanding a material reduction of yield in certain lines as compared with the expectations of the past summer. Preparations for the next crop year are generally well under way and hold out good promise of success. The condition of the soil in most of the growing regions is satisfactory and even in the drought area of Texas there has been a marked improvement.

While war work is almost uniformly active and productive, there are many classes of staples needed for civilian use, in which the output for general sale is being materially limited. This is true both of cotton and wool textiles, of shoes and other articles of current use. In these lines the withdrawal of great quantities of materials and the concentration of productive power very largely for Government contracts, has limited the amount of machine industry available for the service of civilians and makes it questionable how far it would be practicable to meet demand upon the present level - a condition, it may be noted, favorable to an increase of national savings because of diminished opportunities for spending. Nevertheless, retail trade is reported as in excellent condition and demand at many of the large centers was never better. It has been possible to satisfy this demand only because of the fact that considerable stocks of consumable commodities had been laid in a good while ago owing to the increasing uncertainty with reference to conditions of supply. Among the special factors of the month which have entered into the business situation and have in some respects tended to render the results of the past four weeks less "satisfactory" from the dealer's point of view than they otherwise would have been, are conspicuously mentioned, the Fourth Liberty Loan and the general epidemic of influenza. The epidemic has tended to limit production of all kinds, notably coal, steel, and iron, as well as operations in the shipyards. Attention to the process of floating the Liberty Loan has in some respects withdrawn the attention of business men of all classes from their own immediate pursuits, while efforts on the part of the population to buy and arrange for paying for Liberty bonds have probably had a decided influence in reducing demand at retail establishments.

The prospects of saving and economy on the part of the public at large do not appear as encouraging as is to be wished. While there have been enforced economies due to the absence of certain classes of goods from the markets, and while it is expected that the operations of the War Industries Board and its system of rationing will compel a further extension of this involuntary economy, it would appear that many classes of the population are still spending their current incomes as freely as ever, (notwithstanding the fact that prices are today at record figure) because they have not yet embraced the national duty to save as a personal obligation.

Banking conditions are reported to be about as satisfactory as could be expected under the circumstances. The banks entered the Fourth Liberty Loan with a very large stock of certificates of indebtedness and their efforts have been largely directed toward inducing the public to arrange for eventually absorbing the bonds which are to be used to fund these certificates. Due to the very large measure of help which the banks are extending to the Government, there has been an effort on the part of institutions in many parts of the country to restrict the extension of credit to industries which are unquestionably essential. The greater demands of the Treasury and the restriction of commercial demands has resulted in a very great increase in the proportions of bank assets which are held in the form of paper protected by Government obligations. Collections, however, are reported good in almost all parts of the country notwithstanding an apparent tendency in some regions to offer paper instead of cash, while market rates of interest continue firm and high. At Federal Reserve Banks rates have been substantially unchanged throughout the month, except for minor rearrangements and adjustments. There has been continuous progress in the cutting down of the volume of investments and securities issued. Among others, the building industry of the nation shows a practically stationary condition, only absolutely necessary enterprises being undertaken in most cases. Many applications for permission to erect buildings are now awaiting action before the various Government boards in Washington, but the attitude of these bodies has in conformity with national war policies checked progress in new construction.

Prices generally throughout the United States are high and are showing a tendency toward a further upward movement. In some lines this upward tendency is restrained by general or partial price fixing, but in others there is no legal check and producers look for a further drift to higher levels. The impression that peace is not far distant is leading to a careful reconsideration of the accounting and technical position of many businesses. Many are carrying very small stocks of goods, while others show fairly large inventories. In the latter class of cases warning is given that with the possible approach of peace, bringing, as it will, new economic and price conditions, producers should seek to protect themselves, so far as possible, by the adoption of an ultra-conservative attitude with respect to inventories. That such conservatism is, on the whole, general and that there is but little tendency toward reckless inflation, is the testimony of practically allthe Federal Reserve Agents.

All things considered, the position of business for October appears to have been"satisfactory." The new influences growing out of the Fourth Liberty Loan and Government financing have not yet made themselves fully evident.