

STATEMENT FOR THE PRESS

For immediate release January 7, 1919.

The Federal Reserve Board today announced that its January Bulletin had been completed and sent to the printer. The issue will furnish a general review of the condition and progress of the Federal Reserve System during the past year. It also contains some discussion of the present gold situation of the world, and of the United States in particular, accompanied by compilations of statistics designed to show the present gold position of the European banks and particularly of the Federal Reserve system. The general position taken by the Board is that financial and economic conditions are now in a transition stage from a war to a peace basis and during this period there should be extreme caution and a continued application of thrift and conservation principles. With reference to gold it is pointed out that the restoration of a free gold market under proper conditions at as early a date as may be feasible is strongly to be desired and it points out some of the problems that must be solved in this connection.

In outlining the development of the Reserve system during the past year, the Board says that "the increase in the power of the Federal Reserve system and its enormous increase in assets during the year 1918 has been in no small degree the result of the increase in membership. The system today numbers approximately 8,700 institutions, of which 936 are operating under State charters. This great aggregate of banks and trust companies possesses resources amounting to over 27 billions (\$27,253,000,000) and unquestionably represents about 75 per cent of the total assets of the commercial banks in the country. Strong interest is being exhibited by national institutions in the exercise of fiduciary powers which the Act of September 26, 1918, permits

the Federal Reserve Board to grant them. Some of the largest and strongest banks of the country are now equipping themselves to perform such services heretofore chiefly left to trust companies. On the other hand, many of the State bank and trust company members of the system which originally entered it largely from patriotic motives are beginning to develop portfolios of commercial paper eligible for discount and to broaden the scope of their commercial activities. The situation points to the gradual evolution of a more or less homogeneous and uniform type of banking institution, irrespective of whether such institution be organized under national or State charter". The Board then calls attention to the rapid development during the past month seen in the taking over of fiduciary powers by national banks in New York under licenses granted to them pursuant to the terms of the Federal Reserve Act.

In sketching the situation of the Federal Reserve system as a whole with special reference to the gold position of the country it is noted that for five weeks ending December 27th, the banks' gold reserves show a further gain from 2,060.3 to 2,090 millions, and their net deposits a decrease from 1,632.8 to 1,552.9 millions. Federal Reserve notes in actual circulation increased during the five weeks from 2,555.2 to 2,685.2 millions, or at the rate of 26 millions per week, as against an average of 10.5 millions for the preceding five weeks. The ratio of cash reserves to aggregate net deposits and Federal Reserve note liabilities fluctuated but slightly during the period and on December 27, stood at 50.6 per cent compared with 50.5 per cent on November 22.

During the month ending December 10, the net inward movement of gold was \$1,230,000, as compared with a net outward movement of \$2,517,000 for the month ending November 10.

Gold imports for the month, amounting to \$2,412,000 came largely from Canada, Mexico, and Portuguese Africa, while gold exports totaling \$1,132,000

were consigned chiefly to Chile and Mexico.

The gain in the country's stock of gold since August 1, 1914, was \$1,071,669,000 as may be seen from the following exhibit:

GOLD IMPORTS AND EXPORTS
(000 omitted)

6	Imports	Exports	Excess imports over exports
Aug. 1 to Dec. 31, 1914	23,253	104,972	(1) 81,719
Jan. 1 to Dec. 31, 1915	451,955	31,426	420,529
Jan. 1 to Dec. 31, 1916	685,745	155,793	529,952
Jan. 1 to Dec. 31, 1917	553,713	372,171	181,542
Jan. 1 to Dec. 10, 1918	<u>61,066</u>	<u>39,701</u>	<u>21,342</u>
Total	1,775,732	704,063	1,071,669

(1) Excess of exports over imports.

In taking up the gold situation it is noted that the so-called Cunliffe Committee which recently issued a report on the currency and the foreign exchange situation in Great Britain has advocated the continued retention of gold in bank vaults instead of its use as a hand to hand circulating medium. It is pointed out that the United States has long employed this same general expedient, except that it retained in circulation paper representatives of gold (gold certificates) which during the war have now been practically withdrawn, so that it likewise is practically employing a fiduciary circulation based on gold, the metal itself being accumulated as reserve. On this point the Board says, "A large absolute supply of gold does not appear to be necessary to the successful maintenance of the gold standard if a country occupies the position of a banking creditor holding a large volume of foreign bills and has an efficient banking system. In the United States today, both gold and gold certificates have largely disappeared from circulation and the remaining currency in the hands of the people now consists largely of Federal Reserve notes, national bank notes, and Federal Reserve bank notes."

- 4 -

The question of a free gold market is then considered, and it is shown that while early resumption both of free movements of gold and of the control of such movements by changes in the discount rate are desirable, the restoration of such a market is necessarily dependent to some extent upon the demands of foreign countries while the resumption of actual control of gold movements and exchange rates through variation of the rate of discount/^{is conditioned} upon the fiscal policy of the nation. It is stated that "should the financing of foreign requirements become a matter of private banking arrangements, the control of gold movements and exchange rates would assume a new phase."

The existence of a generally inflated condition of credit and prices throughout the world is again noted and attention is called to the fact that thus far there has been little change in the price level. Efforts of business men to stabilize prices can only temporarily have the effect of tending to hold prices up to their present level. A return toward the old level of prices will occur when normal industrial conditions and the free international movement of the precious metals have been re-established.

The Bulletin contains elaborate tabulations showing the present gold position of the world and also the change in the status of the United States as an international creditor, due to its large holdings of securities purchased or absorbed during the war.