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F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS.

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The February issue of the Federal Reserve Bulletin was completed and sent to the printer today.

In the Review of the Month, the first item in the new issue, the Bulletin discusses the general situation as to public and private financing and then says that in spite of the beginning of industrial demands at banks and the requirements of the last installments of the Fourth Liberty Loans there has been exhibited a tendency toward the increase of bank balances at financial centers. "Easier rates for money" the Review continues "have accompanied this inward movement of funds, although the price paid for longer term capital for industrial use has not been lowered, while rates for call loans and other prime commercial paper have fallen but slightly. The tendency however, has been downward and may be taken as indicative of distinct recuperative power on the part of the financial community". As an indication of capacity to reestablish normal conditions attention is called to the beginning of a decline in the amount of war paper, both at Federal Reserve Banks and at member banks. This decline has not been as rapid as has been true after the close of former Liberty loans. The expiration of the installment period of the loan with the close of January has, however, seen the successful liquidation of most of the installment accounts while there are encouraging indications that borrowers who obtained accommodation for a 90-day period are either reducing or canceling their indebtedness, thereby releasing a proportionate amount of bank funds for use in other financing.

Of the situation with respect to industrial financing the Review remarks that: "Thus far there has been little more than a beginning of industrial financing for foreign countries, and the scope of such operations will depend much upon the outcome of the peace conference. So much at least seems clear - that the United States will have a larger amount of new capital available for use in industrial development than will other nations. Our problem will be determination of the basis upon which this capital is to be divided between domestic and foreign demands and the conditions under which it will be found advisable to enlarge our holdings of foreign industrial obligations. However this problem may be worked out, it is already plain that a fundamental and essential aid in its solution will be the accumulation of as much fluid capital as possible. The requirement that saving be furthered and promoted is therefore again emphasized. There is already a tendency in many quarters toward a relaxation of the restraints upon expenditure imposed while the war was still in progress. The call for moderation in outlay and actual accumulation of funds is, however, as urgent as ever if real soundness in national and individual finance is soon to be restored."

The condition of the currency circulation of the country and the tendency of Federal Reserve notes to return to the issuing banks is given attention, both as an indication of some slackening in business activity and as a demonstration of the elasticity of the Federal Reserve note issue itself. On the latter point it is observed that recent redemptions of Federal Reserve notes constitute the most extensive reduction that has occurred since the organization of the system, while contemporaneous with this reduction in outstanding Federal Reserve notes there has been observable a tendency, not yet statistically measurable, toward the reduction of other forms of currency in circulation. "It is a noteworthy fact" says the

Review "that at many banks the over-the-counter deposits are beginning to include a considerable amount of gold coin and gold certificates. This return of funds to the financial centers is in part the outgrowth of greater confidence due to the termination of the war, which has called forth much hoarded currency from its hiding places, but it is also due in no small degree to the slackening of business activity and in lesser measure to the falling of prices already noted. The decline in business activity lessens the amount of cash required by individuals for their personal transactions, by firms and corporations for the maintenance of their counter or vault cash, as well as for payrolls, and even by country banks for the current meeting of calls of depositors. Lowered volume of business has in years past always given rise to a flow of actual currency and money toward the financial centers, and under present conditions this flow is in no small degree eventually a flow toward the Federal Reserve Banks, resulting in the ultimate cancellation of outstanding note currency.

The movement thus observable will afford no ground for surprise to those familiar with the underlying principles of the Federal Reserve note system, demonstrating as it does the elastic quality of the Federal Reserve note, and showing that, with reduced business requirements, the circulation will reduce itself with the same facility as it had previously shown in its prewar expansion to meet increased requirements. That it should return to its prewar amount is not to be expected, especially in view of the fact that so large a volume of Federal Reserve notes has been issued in substitution for the outstanding gold certificates which have been impounded for the purpose of strengthening the reserve of member and Federal Reserve Banks. Remembering, however, that, as shown in the Federal Reserve Bulletin for October 1918, the real "inflation" or abnormal expansion of currency in the United States is less

than the figures nominally representing the growth of the circulation, the contraction which has already occurred within the short space of a month or a little more suggests that it may not be long before this excess expansion will be materially reduced."

As to the business situation and outlook the Review emphasizes the fact that the country is now passing through a period of transition in which extensive readjustments affecting both capital and labor are a characteristic feature. It calls attention to the study that is being given the problem of current business in other countries and the tendency there to return to a stable price level.

"Reports of business conditions" made to the Board by Federal Reserve agents it is noted, "show that the return of active production and consumption is being retarded by high expenses of production. Uncertainty, not only among consumers, but also among those who would ordinarily be in the market for raw materials with which to manufacture goods, concerning the possibility or probability of a further drop in values, tends in the same direction. It is argued that any such decline will be carried by those who are at the moment in possession of the stocks of goods which are thus tending to move toward lower levels. Producers of secondary articles involving the application of large quantities of primary raw materials are reluctant to absorb the loss threatened, although some business men are showing a disposition to treat such losses as one of unavoidable charges upon business in the process of a speedy readjustment. The great volume of our export trade during the month of December furnishes a measure of foreign demand, but it remains true that this export trade is in large part concerned with raw materials, foods, and the like, and that we are still facing the problem of finding or making a market for our

manufactured goods in foreign countries, a process in which we can hardly hope to make the desired success so long as prices continue upon a level higher than that existing in other countries. Those countries which first succeed in readjusting their costs of production and restoring their industry to a normal level of values will be most successful in developing their exports and controlling the markets of consuming nations the world over. The facts in the case appear to be understood abroad, as is indicated by the content of the reports of the various boards and commissions which have lately been looking into the banking and credit situation and which have expressed their opinions with reference to the course properly to be followed in bringing about a return to stable conditions."

The Bulletin contains a reprint of the British report on "Financial Facilities" as well as a collection of recent important documentary material relative to gold production, central bank reserves and gold movements. Business conditions throughout the United States are surveyed at length, both as presented in the reports of Federal Reserve Agents and in those of the Federal Reserve Board's own business index section.