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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For immediate release,
July 9, 1919.

The Federal Reserve Board calls attention to the following facts:

The March installment of income and profits taxes (deposits from March 10 to March 24, inclusive) which aggregated $1,035,993,534, had been prepared for by the Treasury through the issue of certificates of indebtedness, maturing March 15th and acceptable on that date in payment of taxes, to the amount of $834,000,000, and this payment was handled without disturbance in the money market. For the June installment of income and profits tax payments (deposits from June 10 to June 24, inclusive), the amount of which aggregated $903,586,676.77, the Treasury had made even greater preparation. The aggregate amount of certificates of indebtedness of all issues which matured on June 16th and 17th was $1,018,885,000, and the Treasury had on June 9th announced its readiness to make payment of these certificates before maturity and as well of $491,407,000 of certificates maturing July 1, at the option of the holder. The aggregate amount of Treasury certificates of indebtedness affected by this option of redemption before maturity was $1,510,292,000, yet the total amount of certificates actually redeemed before June 16th was only $153,191,500, or 10.1% of such aggregate. Thus it is evident that the banking institutions of the country preferred to keep their funds invested in Treasury certificates bearing interest at $4\frac{1}{2}\%$ rather than to take advantage of much higher rates on stock collateral. It is, therefore, apparent that the repeated flurries in the call money market in the first half of June are to be attributed primarily not to the tax payments of that month but to the fact that in the period since the March tax payment there had been a great expansion of the loan account consequent upon a continuous speculation for a rise in stocks and that the bankers of the country, partly influenced perhaps by the warning of the Federal Reserve Board, preferred to keep their credit resources available for the requirements of the Government and of commerce and industry rather than to devote still further sums to the support of such speculation.

Regrettable as they may be, such flurries in the rates for call money on stock collateral are inevitable so long as the present methods of financing and settling speculative transactions in stocks are persisted in. As things are now, they can be guarded against only by such methods as were adopted during the war, providing a reasonable supply of credit for carrying stocks but, contrariwise, taking effective measures to prevent undue speculation or expansion of the loan account, but it would be in every way undesirable and unfortunate to perpetuate in peace times such arbitrary measures.

It is not the function of the Treasury nor of the Federal Reserve Banks or the banking institutions of the country to provide cheap money for stock speculation and the Board feels that the reflex action of the rates for call money on stock collateral upon the Government's financial program and the requirements of commerce and industry has greatly decreased, (as, indeed, was evidenced by the small redemptions of Treasury certificates notwithstanding high call money rates and the relatively

small effect upon the rates for commercial borrowings) and will continue to decrease as it becomes better and better understood that the true function of the banking institutions of the country and of the Federal Reserve System, acting in their aid, is, subject to the temporary requirements of the Government, to finance commerce and industry.
Only those banking institutions which adhere to this policy are performing their true function and are being wisely and conservatively handled in the real interest of their stockholders and the public. The demands for credit for stock speculation must yield precedence to these prior demands, and the rates for stock speculation ruling from time to time, however erratic, can have no permanent effect upon the rates for Governmental and commercial and industrial purposes.

To have definitely established the fact that there is no necessary connection between rates for speculative purposes and for commercial transactions is in itself an important development.