

## STATEMENT FOR THE PRESS

To be released for morning papers, August 6, 1919.

Government fiscal operations and their effect on banking conditions, also the latest developments in the foreign exchange market are discussed in the forthcoming number of the Federal Reserve Bulletin for August.

A large part of the issue is devoted to a statistical review of operations of the Federal Reserve System since its establishment on November 16, 1914. Statistically the material is presented separately for the period preceding the entry of the United States into the world war, that is from November, 1914, to April, 1917, and for the war and post war period. A remarkable growth is exhibited by the Federal Reserve System from its inauguration when the banks had a combined paid in capital of about 18 millions and aggregate resources of about 250 millions, to the end of June, 1919, about four and one-half years later, when the paid in capital was about 83 millions and the resources in excess of 5,500 millions. The growth in the capital and resources of the Federal Reserve System has been due in part to the coming in of many new banks under the influence of the financial necessities of the war and the patriotic impulse to strengthen the system, and, before the war, to the paying in of reserves by member banks, prior to the expiration on June 21, 1917, of the time limit set by the original act. The great growth in rediscounts would not have occurred within the years in question had it not been for the war and its effects, for most of the advance in the paper holdings is an increase in war paper as such. Nevertheless, there has been a distinct increase in strictly commercial paper operations, as shown by the fact that the holdings of all discounts other than war paper have increased from \$125,789,000 on July 27, 1917 to \$251,392,000 at the end of July, 1919.

One of the most striking features of the evolution of Federal Reserve Banks

is the growth in the circulation of Federal Reserve notes from a small issue in 1914 to an aggregate of \$2,504,497,000 at the end of July, 1919. These notes have practically displaced the gold certificates in circulation, the latter being drawn into the banks and used as reserves. While the Federal Reserve notes are thus not a net addition to the currency of the country except in so far as their amount exceeds the amount of other forms of currency that have been withdrawn or retired, nevertheless the services of these notes in supplying a medium of exchange is conspicuously important. These notes have come to circulate also in increasing volume in Mexico, Central America, and West Indian countries, as well as to some extent in more distant regions.

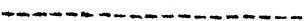
One of the earliest actions of the Federal Reserve Board was to formulate and issue a set of regulations in connection with the use of bankers' acceptances which represented an important means for investing bank funds in live commercial paper and for the purpose of assisting in the financing of export trade. The acceptance early became a standard form of investment for Federal Reserve Banks and, together with other paper, mainly war paper, has served as a useful means of effecting transfers of resources between Federal Reserve Banks through the interbank rediscounting process.

Since the United States became a belligerent, war paper, i.e. customers' notes or notes of the banks themselves, collateralized by Government war obligations, naturally constituted a considerable element in the business of Federal Reserve Banks. Such notes received a preferential rate which encouraged the public to buy government obligations in the assurance that if unable to make payments in full they could secure accommodation from their banks which in turn would relieve themselves by rediscounting with Federal Reserve Banks. The Federal Reserve Banks' holdings of war paper increased from about 26 millions on June 29, 1917 to 1,616 millions on July 25, 1919.

One of the most notable results of war banking and war finance has been

the enormous accumulation of gold in the vaults of Federal Reserve Banks. The Federal Reserve system's machinery for centralizing reserves, the great exports of merchandise during the war, and the substitution of notes for gold both in the tills of member banks and in circulation have caused the gold holdings of the Reserve Banks to reach an unprecedented amount, the maximum figure of 2,201 millions being reported for June 6, 1919.

Federal Reserve Banks earned comparatively small profits before the war, but owing to the large amounts of war paper handled during the war period as well as since the signing of the armistice, the earnings of the banks increased greatly. The personnel of the banks and the number of branches all show increases commensurate with the growth of operations, while over 1,000 state banks and trust companies have joined the system since its organization.



An article on Banking and Economic conditions in Japan, 1914-1919, is part of the Bulletin. War conditions resulted in a great increase in Japan's foreign trade and in the establishment of a balance favorable to Japan. Many industries producing articles of export flourished during the war as the result of the great demand for war materials by the belligerents and the absence of European competition in Eastern markets. Ship building experienced an unprecedented boom caused by the great need of cargo space. The Bank of Japan's gold Holdings showed a constant growth during the war and its holdings of foreign bills also increased. Amounts due to the bank from agencies and banking houses, rose from 164 million yen in 1914 to 937 millions on June 14, 1919. Rates of exchange on foreign countries were favorable to Japan throughout most of the period under review. Serious setbacks to war-fostered industries followed the cessation of hostilities and many failures, together with the continued increase in the price of foodstuffs resulted in an economic crisis necessitating government intervention. Japan is at present going through a period of readjustment and great efforts are made to establish its war-made industrial and commercial position on a permanent

peace basis.

The Bulletin carries also its regular monthly statistics relating to banking conditions, physical volume of trade, and wholesale prices. Aggregate increases of 96.3 millions in investments, largely the result of open market purchases of bank acceptances, and reduction of 53.6 millions in gold reserves, as a result of exports following removal of the gold embargo, are the principal changes in the status of Federal Reserve Banks between June 20 and July 18. Gold exports, following the removal of the gold embargo on June 7, proceeded on a large scale, and for the monthly period ending July 10 amounted to \$98,441,384. Of the total exports, \$32,460,000 was consigned to Argentina, \$25,850,000 to Spain, \$17,024,000 to Japan and \$7,405,000 to Uruguay, the remainder being shipped principally to Venezuela, Hongkong, Peru and Bolivia.

In the Bulletin are also printed texts of several bills pending in Congress amending the Federal Reserve and National Bank acts with a view to facilitating the participation of member banks in foreign commercial banking and in the financing of the export trade.