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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING JULY 4, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 8			
Farmers Bank & Trust Co., Magnolia, Ark.	$50,000	$28,000	$757,673
DISTRICT NO. 10			
Saline County Bank, Western, Nebr.	30,000	30,000	334,881

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 11, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 3	Capital	Surplus	Total Resources
Bankers Trust Company, Atlantic City, N. J.	$100,000	$ - ---	$100,000
DISTRICT NO. 4			
Citizens Savings Bank, Upper Sandućky, Ohio.	50,000	30,000	785,393
DISTRICT NO. 7			
First State Savings Bank, Evart, Mich.	50,000	10,000	705,692
Chemical State Savings Bank, Midland, Mich.	50,000	- ---	740,196
State Savings Bank, Nashville, Mich.	25,000	5,000	383,962
DISTRICT NO. 10			
American Bank, Sidney, Nebr.	100,000	25,000	1,220,067
DISTRICT NO. 12			
Pullman State Bank, Pullman, Wash.	37,500	10,000	605,401
Central Bank of Toppenish, Toppenish, Wash.	50,000	18,000	437,096

Note.- The First State Bank, Wolfe Point, Montana, has decided not to completed its membership by making payment on account of capital stock, and it is, therefore, not a member of the Federal Reserve System.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Canal National Bank, Portland, Maine.
Northwestern National Bank, Minneapolis, Minn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 18, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4			
Pemberville Savings Bank Co., Pemberville, Ohio.	$25,000	$5,000	$585,124
DISTRICT NO. 6			
Glynn County Bank, Brunswick, Ga.	100,000	- ---	764,704
DISTRICT NO. 7			
State Savings Bank, [illegible], Caro, Mich.	50,000	25,000	918,167
DISTRICT NO. 8			
Desha Bank & Trust Co., Arkansas City, Ark.	100,000	100,000	1,134,164
Chicot Bank & Trust Co., Lake Village, Ark.	100,000	21,000	796,389
Warren Bank, Warren, Arkansas.	75,000	20,000	495,020
Lincoln Savings Bank & Trust Co., Louisville, Ky.	500,000	100,000	3,117,261
DISTRICT NO. 9			
Powder River County Bank, Broadus, Mont.	25,000	- ---	101,746
American Bank of Laurel, Laurel, Mont.	25,000	2,500	27,500
DISTRICT NO. 12			
The Inland-Empire Bank, Pendleton, Ore.	250,000	- ---	342,280
Monticello State Bank, Monticello, Utah.	25,000	2,500	97,378

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

First-Second National Bank, Akron, Ohio.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING JULY 25, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4			
Hubbard Banking Company, Hubbard, Ohio.	$50,000	$25,000	$920,619
DISTRICT NO. 6			
Bank of Orange & Trust Co., Orlando, Fla.	100,000	15,000	540,846
DISTRICT NO. 8			
Citizens Bank & Trust Co., Batesville, Ark.	50,000	12,500	505,775
Union Bank & Trust Co., Batesville, Ark.	75,000	9,000	879,276
Bank of Lebanon, Lebanon, Ill.	50,000	5,000	288,932
Farmers & Commercial Savings Bank, Clayton, Mo.	75,000	7,500	82,500
DISTRICT NO. 12			
Bank of Italy, San Francisco, Calif.	5,000,000	1,250,000	103,866,960
The Marine Bank, Seattle, Wash.	200,000	50,000	250,000

The Evanston Trust & Savings Bank, Evanston, Illinois, has changed its name to "State Bank & Trust Company", and has increased its capital to $300,000.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING AUGUST 1, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
Sussex County Trust Co., Franklin, N. Y.	$100,000	$20,000	$120,000
Kingston Trust Company, Kingston, N. Y.	150,000	60,000	1,075,495
DISTRICT NO. 4			
Union Savings & Trust Co., Warren, Ohio.	300,000	300,000	4,552,237
DISTRICT NO. 6			
Union Savings Bank, Mobile, Ala.	200,000	6,595	1,076,307
Mercantile Bank & Trust Co., Savannah, Ga.	200,000	3,500	1,226,860
DISTRICT NO. 7			
Farmers State Bank, Lafontaine, Ind.	35,000	491	142,962
The Farmers Bank, Mason, Mich.	50,000	10,000	543,886
DISTRICT NO. 10			
Nebraska State Bank, Ord, Nebraska.	35,000	12,000	476,728
Producers State Bank, Tulsa, Okla.	250,000	25,000	3,517,552
DISTRICT NO. 11			
First Guaranty State Bank, Denton, Texas.	50,000	5,000	269,282
Commercial Guaranty State Bank, San Augustine, Texas.	50,000	3,000	257,968

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FEDERAL RESERVE BOARD

WASHINGTON

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING AUGUST 8, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
Liberty Bank of Buffalo, Buffalo, N. Y.	$1,500,000	$1,000,000	$30,976,680
DISTRICT NO. 4			
Middlefield Banking Co., Middlefield, Ohio.	25,000	25,000	371,034
DISTRICT NO. 6			
Atlanta Trust Co., Atlanta, Ga.	1,000,000	100,000	2,107,970
DISTRICT NO. 7			
Great Lakes Trust Co., Chicago, Ill.	3,000,000	600,000	3,600,000
First State Savings Bank, Birmingham, Mich.	40,000	15,000	944,253
St. Charles State Bank, St. Charles, Mich,	25,000	5,000	442,633
State Bank of Kewaunee, Kewaunee, Wis.	60,000	15,000	940,860
DISTRICT NO. 10			
Farmers State Bank, Genoa, Nebr.	25,000	-- ---	242,690

The Depositors State & Savings Bank, Chicago, Illinois, has changed its name to "Depositors State Bank".

The Indiana Bank & Trust Company, Rochester, Indiana, has changed its name to "United States Bank & Trust Company".

The Commercial & Savings Bank, Mitchell, South Dakota, has changed its name to "Commercial Trust & Savings Bank".

Correction: (Announcement of August 1, 1919)

Sussex County Trust Co., Franklin, N. Y. should be Sussex County Trust Co., Franklin, N. J.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING AUGUST 15, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
Hibernia Bank of Savannah Savannah, Ga.	$200,000	$200,000	$3,772,825

WITHDRAWN:

The Farmers & Merchants Bank, Hickman, Ky., has withdrawn from membership.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING AUGUST 22, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
Olean Trust Company, Olean, N. Y.	$100,000	$20,000	$1,281,837
Wakeman Bank Company, Wakeman, Ohio.	25,000	10,000	304,164
Rittman Savings Bank, Rittman, Ohio.	25,000	8,500	366,938
Park City State Bank, Park City, Mont.	25,000	10,000	313,031

CONSOLIDATION:

The Commercial Trust and Savings Bank (a member bank), the United States Trust and Savings Bank and the Canal Bank and Trust Company of New Orleans, Louisiana, (a member bank), have consolidated under the title of the Canal-Commercial Trust and Savings Bank as a member bank.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING AUGUST 29, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
Apple Creek Banking Co., Apple Creek, Ohio.	$25,000	$15,000	$367,957
The Canon Bank, Canon, Ga.	25,000	12,500	105,597
Bank of Sasser, Sasser, Ga.	25,000	25,000	178,138
Guaranty State Bank, Grand Prairie, Texas.	25,000	-- ---	77,798
Carbon County Bank, Price, Utah.	50,000	5,000	55,000

The City Savings Bank & Trust Company, Alliance, Ohio, has changed its name to "Citizens Savings Bank & Trust Company".

WITHDRAWN:

The Hillsboro State Bank, Plant City, Florida, and the Kellerton State Bank, Kellerton, Iowa, have withdrawn from membership.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

City National Bank, Bridgeport, Conn.
Hamilton Trust Company, Paterson, N. J.
National Marine Bank, Baltimore, Md.
Bank of Commerce & Trusts, Richmond, Va.
Hibernia Bank, Savannah, Ga.
Commerce Trust Company, Kansas City, Mo.
Lumbermans National Bank, Houston, Texas.
National Bank of Commerce, Houston, Texas.
Thames National Bank, Houston, Texas.
Lamar State Bank & Trust Company, Paris, Texas.
First National Bank, San Angelo, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING SEPTEMBER 5, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
Citizens Trust Company, Adams, New York.	$150,000	$ 75,000	$1,351,304
Bank of United States, New York City.	1,000,000	250,000	20,643,918
State Bank of Revere, Revere, Minn.	30,000	30,000	190,398
Home State Bank, Anthony, Kans.	25,000	1,500	27,500

WITHDRAWN:

The Cherokee County Bank, Centre, Alabama, has withdrawn from membership.

ACCEPTANCES TO 100%.

Correction - announcement of August 29.

Thames National Bank, Houston, Texas, should be Thames National Bank, Norwich, Conn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING SEPTEMBER 12, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
Lewistown Trust Company, Lewistown, Pa.	$125,000	$25,000	$731,186
Security Bank, Portsmouth, Ohio.	150,000	250,000	2,315,407
Citizens Trust Company, Savannah, Ga.	200,000	50,000	918,573
Columbia County Bank, Magnolia, Ark.	50,000	11,500	569,272
Citizens Bank, Dyersburg, Tenn.	50,000	50,000	866,281
South Shore Bank, South Shore, S. Dak.	25,000	3,500	252,134
State Bank of La Crosse, La Crosse, Wis.	100,000	50,000	1,675,018
State Bank of Caledonia, Caledonia, Mich.	25,000	14,000	470,043

The Chicago Savings Bank & Trust Company, Chicago, Illinois, has changed its name to "Chicago Trust Company".

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

New Bedford Safe Deposit & Trust Company, New Bedford, Mass.
Union National Bank, Pittsburgh, Pa.
National Bank of Commerce, Kansas City, Mo.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING SEPTEMBER 19, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 9			
Farmers State Bank, Waconia, Minn.	$25,000	$8,500	$446,238
DISTRICT NO. 12			
Bank of St. Helena, St. Helena, Calif.	75,000	26,500	754,175

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING SEPTEMBER 26, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM;

DISTRICT NO. 12	Capital	Surplus	Total Resources
Ocean Park Bank, Santa Monica, Calif.	$100,000	$16,100	$1,053,290
Citizens State Bank, Stanwood, Wash.	25,000	2,500	27,645

The Metropolitan Bank, New Orleans, Louisiana, has changed its name to "Pan-American Bank & Trust Co."

The announcement of August 29, of the change of name of the City Savings Bank & Trust Co., Alliance, Ohio, to "Citizens Savings Bank & Trust Co.", was in error.

WITHDRAWN:

The following State institutions have withdrawn from membership:

Citizens Bank & Trust Co., Athens, Alabama.
Lake Providence Bank, Lake Providence, Louisiana.

The City Bank & Trust Co., New Orleans, Louisiana, has merged with the Whitney Central Trust & Savings Bank of New Orleans, and has surrendered its stock in the Federal Reserve Bank.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Central National Bank, Cleveland, Ohio.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING OCTOBER 3, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4			
The Pearl Street Savings & Trust Co., Cleveland, Ohio.	$600,000	$400,000	$14,127,455
The Orrville Savings Bank, Orrville, Ohio.	50,000	45,000	867,865
DISTRICT NO. 9			
Central Savings Bank, Sault Ste Marie, Mich.	100,000	20,000	975,200

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Henderson National Bank, Huntsville, Ala.
Citizens Trust Company, Savannah, Ga.
Canal-Commercial Trust & Savings Bank, New Orleans, La.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING OCTOBER 10, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
Elizabethport Banking Company, Elizabeth, N. J.	$213,787	$50,000	$4,410,095
DISTRICT NO. 3			
Grange Trust Company, Huntingdon, Penna.	125,000	- ---	664,586
DISTRICT NO. 4			
Marshall County Bank, Moundsville, W. Va.	150,000	40,000	1,224,577
DISTRICT NO. 8			
Bank of Commerce, El Dorado, Ark.	50,000	5,000	55,000
Belleville Savings Bank, Belleville, Ill.	150,000	400,000	4,239,860
DISTRICT NO. 10			
Farmers State Bank, Cozad, Nebr.	50,000	10,000	829,670
DISTRICT NO. 12			
Bank of Norwalk, Norwalk, Calif.	25,000	10,000	303,350
Italian American Bank, San Francisco, Calif.	1,000,000	142,500	11,135,353

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING OCTOBER 17, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 3			
The Schuylkill Haven Trust Co., Schuylkill Haven, Penna.	$125,000	$55,000	1,212,121
DISTRICT NO. 8			
The Farmers & Merchants Bank, Dyer, Tenn.	40,000	18,941	331,188
DISTRICT NO. 10			
Cordell State Bank, Cordell, Okla.	30,000	3,000	368,896
DISTRICT NO. 12			
French American Bank of Savings, San Francisco, Calif.	1,000,000	250,000	13,551,774
Commercial Trust & Savings Bank, Santa Barbara, Calif.	575,000	200,000	6,480,670

CONVERSION:

Drovers & Merchants Bank, Philadelphia, Penna.	into	Drovers & Merchants National Bank, Philadelphia, Penna.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL
AND SURPLUS:

National Bank of Commerce, Fort Worth, Texas.
Stockyards National Bank, Fort Worth, Texas.
Waxahachie National Bank, Waxahachie, Texas.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING OCTOBER 24, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 5			
Citizens Bank & Trust Co., Rock Hill, S. C.	$100,000	$5,000	$567,572
DISTRICT NO. 7			
American State Bank, Fort Madison, Iowa.	100,000	8,000	1,200,211
DISTRICT NO. 10			
The Citizens State Bank, Liberal, Kansas.	50,000	17,000	542,497
Cheyenne State Bank, Cheyenne, Wyoming.	100,000	20,000	459,352
DISTRICT NO. 12			
The San Francisco Savings & Loan Society, San Francisco, Calif.	1,000,000	2,300,000	60,509,192
Savings Union Bank & Trust Co., San Francisco, Calif.	1,500,000	1,625,000	45,621,028

WITHDRAWN

The Mount Ayr State Bank, Mount Ayr, Iowa, has withdrawn from membership.

CONVERSION:

Bank of Commerce, Philadelphia, Penna. into National Bank of Commerce, Philadelphia, Penna.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Citizens & Southern Bank, Savannah, Ga.
First National Bank, Valdosta, Ga.

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING OCTOBER 31, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7			
Bank of Fountain, Fountain, Mich.	$25,000	$ 5,000	$ 173,394
DISTRICT NO. 10.			
First State Bank, North Bend, Nebr.	25,000	15,000	578,073
DISTRICT NO. 12			
Renton State Bank, Renton, Wash.	25,000	2,500	65,531

CONVERSION:

Rigby State Bank, Rigby, Idaho.	into	First National Bank, Rigby, Idaho.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL
AND SURPLUS:

Utica Trust & Deposit Company, Utica, N. Y.
First National Bank, Gainesville, Texas.
Lowry National Bank, Atlanta, Ga.
Chicago Trust Company, Chicago, Ill.
First National Bank, St. Louis, Mo.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING NOVEMBER 7, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4			
The Farmers State Bank, Eldorado, Ohio.	$35,000	$ 2,675	$448,817
DISTRICT NO. 5			
Commerce Bank & Trust Co., Charlottesville, Va.	100,000	10,000	110,010
DISTRICT NO. 6			
Farmers State Bank, Huntsville, Ala.	100,000	35,000	660,866
The Peoples Bank, Calhoun, Ga.	55,000	11,000	575,619
DISTRICT NO. 9.			
Brule State Bank, Chamberlain, S. D.	50,000	10,000	852,313
DISTRICT NO. 12.			
First State Bank of Teton City, Teton City, Idaho.	30,000	3,000	33,000
Anglo-California Trust Co., San Francisco, Cal.	1,500,000	500,000	21,002,732

CONVERSIONS

American Exchange Bank, Virginia, Minn.	into	American Exchange National Bank, Virginia, Minn.
Parma State Bank, Parma, Idaho.	into	First National Bank, Parma, Idaho.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING NOVEMBER 14, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO.7	Capital	Surplus	Total Resources
Moville State Bank, Moville, Iowa.	$35,000	$20,000	$371,092
Sibley State Bank, Sibley, Iowa.	50,000	15,000	819,560
DISTRICT NO. 9			
Security Bank & Trust Co., Bozeman, Mont.	100,000	- ---	112,840
DISTRICT NO. 10			
Farmers State Bank, Allen, Nebraska.	29,500	5,000	289,962

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING NOVEMBER 21, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
The East Orange Bank East Orange, N. J.	$150,000	$25,000	$1,897,575
The Bank of Orchard Park, Orchard Park, N. Y.	30,000	6,000	406,844
DISTRICT NO. 5			
Independence Trust Company, Charlotte, N. C.	500,000	250,000	3,965,665
Citizens Bank, Blackstone, Va.	100,000	43,000	717,312
DISTRICT NO. 12			
Hibernia Savings Bank, Portland, Ore.	200,000	100,000	5,051,535

The Union Savings Bank, Mobile, Alabama, has changed its name to "Union Commercial Bank"

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK
ENDING NOVEMBER 28, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 7	Capital	Surplus	Total Resources
First State Bank, Vicksburg, Mich.	$30,000	$3,500	$405,666
DISTRICT NO. 10			
Live Stock State Bank, Kansas City, Mo.	200,000	37,500	2,148,802
Custer State Bank, Broken Bow, Nebr.	35,000	7,000	534,538

WITHDRAWN:

The Citizens State Savings Bank, Otsego, Michigan, has withdrawn from membership.

The Title Guarantee & Trust Company, Lexington, Kentucky, has changed its name to "Guaranty Bank & Trust Company."

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING DECEMBER 5, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7			
Farmers State Bank, Bellevue, Mich.	$25,000	$5,000	$154,196
DISTRICT NO. 8			
Bank of Waynesville, Waynesville, Mo.	25,000	5,000	562,378
DISTRICT NO. 10			
The First State Bank, Locust Grove, Okla.	25,000	8,500	230,098
DISTRICT NO. 12			
Alameda Savings Bank, Alameda, Calif.	236,300	125,000	4,228,830
Surprise Valley Bank, Cedarville, Calif.	25,000	25,000	346,183
California Bank of San Mateo County, San Bruno, Calif.	25,000	- ---	27,500
The Citizens Bank of Renton, Renton, Wash.	25,000	5,000	684,907

VOLUNTARY LIQUIDATIONS:

Scandinavian Trust Company, New York, N. Y.
The Bank of Williston, Williston, North Dakota.

CHANGE OF NAME:

The Citizens Bank & Trust Company, Tampa, Florida, has changed its name to "Citizens-American Bank & Trust Company."

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING DECEMBER 12, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
Citizens Bank of Cape Vincent, Cape Vincent, N. Y.	$50,000	$8,000	$170,606
DISTRICT NO. 7			
The First State Bank, Carsonville, Mich.	25,000	5,000	481,228
Lake Odessa State Savings Bank, Lake Odessa, Mich.	25,000	12,500	392,830
Farmers State Bank, Vicksburg, Mich.	25,000	5,000	484,557
Crossman & William State Bank, Williamston, Mich.	40,000	12,000	396,237
DISTRICT NO. 9			
Commercial Bank, Menominee, Mich.	100,000	20,000	717,494
American Bank & Trust Co., Missoula, Mont.	100,000	11,500	1,887,218
Reed Point State Bank, Reed Point, Mont.	25,000	5,000	188,368
DISTRICT NO. 10			
The State Savings & Mercantile Bank, Wichita, Kansas.	200,000	20,000	1,786,824
Kilgore State Bank, Kilgore, Nebr.	25,000	5,100	299,747
Stockgrowers State Bank, Pawhuska, Okla.	60,000	6,000	301,305
DISTRICT NO. 12			
Bank of Sausalito, Sausalito, Calif.	50,000	7,000	615,839
State Bank of Enumclaw, Enumclaw, Wash.	30,000	10,000	686,502
Commercial Bank, Spanish Fork, Utah.	50,000	10,000	387,987

LIQUIDATIONS:

First State Bank, Dallas, Texas. (Consolidated with Security National Bank of Dallas, Texas.)

Rio Grande Valley Bank & Trust Co., El Paso, Texas. (Consolidated with the National Bank of El Paso, Texas.)

Farmers State Bank, Rice, Texas. (Consolidated with First State Bank of Rice, Texas.)

CONVERSION:

Denver Stock Yards Bank, Denver, Colo. into Stock Yards National Bank.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Atlanta National Bank, Atlanta, Ga.

First National Bank, Hoboken, N. J.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING DECEMBER 19, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 2	Capital	Surplus	Total Resources
Bank of Nutley, Nutley, N. J.	$100,000	$35,000	$1,538,980
DISTRICT NO. 4			
Wheeling Bank & Trust Co., Wheeling, W. Va.	160,000	520,000	5,487,985
DISTRICT NO. 7			
Lapham State Savings Bank, Northville, Mich.	50,000	15,000	721,595
DISTRICT NO. 9			
Southern Montana Bank, Ennis, Mont.	25,000	20,000	398,854
DISTRICT NO. 11			
Central Savings Bank & Trust Co., Monroe, La.	250,000	62,500	2,119,517
DISTRICT NO. 12			
Butte County Bank, Arco, Idaho.	25,000	- ---	28,750
The Washington Trust Co., Spokane, Wash.	200,000	40,000	1,196,810

LIQUIDATION:

First Guaranty State Bank & Trust Co., Ennis, Texas. (Consolidated with the Ennis National Bank, Ennis, Texas.)

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL
AND SURPLUS:

First National Bank, New Bedford, Mass.
Marine Bank, Norfolk, Va.
First National Bank, Clarksville, Tenn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING DECEMBER 26, 1919.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2			
State Bank of Endicott, Endicott, N. Y.	$50,000	$10,000	$60,000
DISTRICT NO. 8			
The Bank of Versailles, Versailles, Mo.	75,000	7,000	577,984
DISTRICT NO. 12			
Guaranty Trust & Savings Bank, Los Angeles, Calif.	1,500,000	1,000,000	28,216,489
Los Angeles Trust & Savings Bank, Los Angeles, Calif.	1,500,000	1,725,000	36,001,546
Security Trust & Savings Bank Los Angeles, Calif.	1,800,000	1,100,000	62,634,439
The Myton State Bank, Myton, Utah.	25,000	10,000	275,665

X-1600

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

To be released afternoon papers
July 2nd, 1919.

Business and Financial Conditions
During June, 1919.

Increasing confidence in the continuance of business activity and an expansion of industry along many lines have been the characteristic features of the month of June. This condition has been reflected in the speculation which has been reported from several districts, with some indication latterly of danger that it would develop to excess. Underlying business conditions have nevertheless shown strong and steady development. In nearly all of the districts the opinion is entertained that the prospects for a successful and prosperous year, with very large output of goods and almost unprecedented financial returns both to manufacturers, agriculturists, and laborers, are now positive. The possibility that speculation may be carried too far and may exert an injurious influence, aided and furthered by the existence of free credit and speculative tendencies, appears as the principal offsetting influence in the situation.

General conditions in district No. 1 are based upon "consensus of opinion that business conditions will remain good for a considerable time to come." Buyers are increasingly "ready to enter into future commitments," but "speculation has become popular," and various doubtful securities are being offered to the public. In District No. 2 "the inclination to buy has not abated.....dealers have been obliged to increase their demand on manufacturers and producers with the result that many industries report maximum activity. The export demand has supplemented domestic requirements."

In district No. 3 there has been no change "in the favorable business conditions and the optimistic outlook" noted during the preceding month, but prices have continued to advance, and there is a great latent demand for "nearly all kinds of goods". From district No. 4 it is reported that the wide distribution of orders for commodities is giving a "healthy color to business", and a "firmer feeling of confidence prevails than has been evidenced in any of our previous reviews." District No. 5 reports "a continuously rapid improvement in business, the volume moving apparently being limited only by the supply of raw material." In district No. 6 business conditions "in all parts of the district are reported satisfactory", and demand has appreciably increased during the past few weeks. In district No. 7 it appears that wheat is "in fine condition," general crop conditions good, land values high, selling conditions and collections good, and the principal danger seen in a development of speculation. In district No. 8 there is "great activity in retail trade undiminished, prospect of an excellent crop yield... likelihood that the over supply of labor ... will soon be converted into an actual shortage." District No. 9 reports that damage to crops has been averted and that labor, agriculture, and general business have good prospects.

In district No. 10 " a high tide of general business and industrial activity is shown .... in reports .... from all sections of the ... district." These reports uniformly agree that "there is increased confidence and more satisfactory progress in practically every line of trade." In district No. 11 "early predictions of good crops and business conditions have fully materialized, and there is no hesitancy in the trade." In district No. 12 "industry is active, trade and collections good, and agricultural prospects encouraging." Practically throughout the country the labor situation is reported improving and wages high, and if anything a scarcity of men for actual productive work.

Prices have continued to rise throughout the month, both in this country and England, and are fast making up the setback which occurred after the signing of the armistice, when a slight reduction in prices over the high levels of the war period took place. The enormously heavy demand for goods for export has rendered products in many lines scarce, or has even put them out of reach. In nearly all districts it is reported that the conclusion has been arrived at by business men that they can rely upon heavy demand and continuously sustained prices for some time to come, while a feeling of apprehension which had been entertained early in the year is disappearing, and jobbers and retailers are readily entering into commitments for the fall and winter, very large orders in many cases being placed. In one district it is reported that, contrary to expectations, there has been little or no reduction in prices; in fact, in many directions there has been a stiffening in prices, and there is a general disposition to accept present levels and expect a continuation of them. During May the upward movement of wholesale prices noted in March and April has continued, the general index number of the Bureau of Labor Statistics now standing at 206, the same figure as for November and December, 1918. The increase has been general, being exhibited by each of the groups of commodities for which index numbers are calculated. The index number for the group of consumers' goods has increased from 210 to 215, for the group of producers' goods from 186 to 190, and for the group of raw materials from 200 to 203, the increase in the last named group being largely due to the increase in the prices of farm products, the index number for which sub-group has increased from 243 to 254.

In many respects the agricultural prospects of the early spring are being more than justified. The figures given out by the Government, which promised an enormous yield, have naturally declined somewhat as the season has advanced, such being always the tendency as the crop approaches maturity, but the figures are well above the 10-year average, both for winter and spring wheat. Grain in Montana and western North Dakota escaped danger early in the month through timely rains, and the prospects in Montana and other parts of the northwest are favorable, the South Dakota outlook "is excellent" and "in practically all of North Dakota very good." In Minnesota and Wisconsin prospects are for a big crop. In district No. 7 "the winter wheat crop is coming to the harvest in fine condition" and corn is looking fairly well. Tobacco and corn have been freely planted, and hold out an excellent prospect. In district No. 6 corn is in large acreage and showing spendid growth, while cotton was in fair condition before the recent rains. In Texas the cotton crop has suffered somewhat from heavy rains, while acreage reduction has proved successful, but corn is in an unusually favorable position and other crop prospects are satisfactory. On the Pacific coast the grain harvest has commenced and it is believed that the year's output will be the largest in some States ever produced, and in California the largest since 1907.

No important developments have occurred in the flour market. Live-stock continues high in price with receipts of cattle at fifteen of the primary markets about stable, being 1,255,379 during April and 1,262,065 during May, the index number for each month being 125. Receipts of hogs have increased, the figure for May being 3,049,223, as compared with 2,823,484 during April, the corresponding index numbers being 139 and 128. Packers's purchases of cattle for slaughter in the Kansas City district are less than a year ago, but the killing of hogs and sheep shows a decided increase.

In steel and iron the month has witnessed a distinct turn for the better, and manufacturers now report a much more encouraging prospect. Philadelphia reports "large orders from automobile concerns and for export". Operations of steel plants in the third district show increases for early June. In the southern iron district "inquiries are multiplying". Pig-iron plants which were idle in April are now operatiing, and others are making preparations to begin operations. Steel plants in the Birmingham district are operating steadily. Large orders for steel rails have been placed by the railroads, and inquiries for a large amount of steel tonnage for export trade have appeared. The unfilled steel tonnage for the United States Steel Corporation as of May 31 was reported as 4,232,310 tons, but the reduction thus indicated is believed to represent the low point of the movement downward, which set in soon after the armistice. Pig-iron production during May was 2,108,056 tons, corresponding to an index number of 91, as compared with 2,478,218 tons during April, the index number being 107. Steel ingot production likewise shows a decline, from 2,239,711 tons during April to 1,929,024 tons during May, the respective index numbers being 93 and 80. Even where the pig-iron trade is slightly smaller and where plants have not yet resumed their activity, there is a much more hopeful feeling. Pipe plants and steel mills are beginning to receive increased inquiries for their products. Foundries and cast-iron pipe makers are also running more steadily.

The fuel situation has been much below normal so far as production is concerned since the first of the year, and the bituminous market is dull, but there is an increasing demand due to a reduction in stock and the fact that industrial consumers are coming to the conclusion that a tight situation in the production of coal will exist next winter. A great deal of high-grade bituminous coal is now said to be covered by contract up to next April. A very large demand for anthracite coal for next winter is now predicted. Increased production of both bituminous and anthracite coal during May is reported, the output of the former being 37,547,000 tons during the month as compared with 32,164,000 tons during April, the respective index numbers being 101 and 87. Anthracite coal output for May is 5,711,915 tons as compared with 5,224,715 tons during April, the respective index numbers being 101 and 93.

Mines have been producing far below capacity, and there is a possibility of shortage. The coke market is quiet and prices are little above the cost of production. Production of beehive coke during May was 1,135,840 tons, as compared with 1,316,960 tons during April, the index numbers being respectively 43 and 50. These conditions tend to provide a cheaper medium supply of fuel than would otherwise be available, but with the probability of higher prices later on. In the Pittsburgh district millions of dollars are being spent in repairs and enlargements by steel companies, and this is interpreted to mean that prospects of great expansion are foreseen by shrewd operators. Buyers all accept present levels of prices in steel, and are willing to close tonnages at present prices to a more forward date than the producers have heretofore been willing to entertain. Steel is now being sold in the first open market since the beginning of the war, but shows strong capacity to maintain its price. Orders are well distributed throughout the country, and there is a large demand for structural steel. Wire plants are now operating at about 85 per cent, while the pig-iron plants in the Pittsburgh district are on a basis of from 65 per cent to 70 per cent. Metal mining industry is again improving, assisted by the removal of restrictions affecting the export of silver and the prospects of a better market for copper. Copper prices have strengthened during the month and the price of copper stocks has moved up in sympathy with them. A more favorable feeling in the Colorado district has been produced by better prices for lead and zinc. The volume of labor remains about the same, but wages have been somewhat reduced. Zinc ore fell slightly in price during the month of May in the Joplin district, but lead ore has been practically stable. Operations are carried on at about 50% of capacity in both metals. In common with the steel industry, manufacturing has taken a strong upward turn during the month. In New England the demand for fine cotton goods exceeds production, and the buyers in many cases are willing to pay premiums in order to assure themselves of having goods when needed. There is a shortage of skilled labor throughout the cotton district. Shoe manufacturers are producing at maximum capacity, while the heavy demand from Europe is drawing off a very large portion of the available supply. In Philadelphia inquiry shows that the cotton mills are in much better position than a few months ago, and that prices have risen to very high levels, the advances being greater proportionately than the rise in raw materials. Export business is good and limited only by the financial ability of foreigners to pay. Raw wool is in very strong demand throughout all of the woolen-producing sections, and a higher level of prices prevails at the Government auctions. Products are now sold ahead for many months, and active business is expected for the remainder of the year. Imports of raw silk during the month of May were 4,878,646 pounds, as compared with 2,988,838 pounds during the month of April, the respective index numbers being 238 and 146. Demand for leather has been on the increase and prices have moved very high. Tanners are endeavoring to buy from one another in New England and manufacturers are finding it considerably more difficult to buy their supplies in advance. In St. Louis great increases in the boot and shoe business are reported and orders for fall delivery are already being placed. The leather situation is difficult practically everywhere. Automobile manufacturing is running in many plants at record levels. Expenditures on the part of consumers have led retailers to stock up more heavily than heretofore, and wholesalers generally report very strong demand from their customers.

Building shows continuation of the revival already noted. Heavy buying of lumber on the part of retailers has become general. In New England the number and value of permits in May showed a very large gain over those of the preceding month and year. In the Fifth District there is an increase in the number of permits issued amounting to about 22 per cent over April. In the southwest building is slower, but there is activity in repairs and reconstruction. There is a shortage of house accommodations, but new building has not been actively resumed. In Philadelphia and New York the demand for accommodations is far in excess of supply, prices of building materials advancing, and reconstruction is being rapidly developed. There is much trading in houses and a great deal in business property in many parts of the country.

The labor situation has now reached a distinctly advanced stage of full employment. There is apparently no present condition of unemployment; indeed, many industries report that they can not get the men they need, while wages are fully up to past levels or higher. The requirements for farm help are absorbing surplus labor in practically all parts of the country. There is some surplus of unskilled workers in some centers, but this is not different from the condition which frequently exists in normal times. In the northwest the labor situation has greatly improved, particularly in the copper mines. The Fourth District reports that skilled workers are particularly few as compared to the demand, and that there is very little unrest. No reduction in wage scales is now foreseen. One of the principal problems in the labor situation that is noted by thoughtful observers is the fact that clerks and office employees, as well as other workers receiving more or less fixed incomes, have not yet participated in the advance in wages. Improvement for these classes of workers will be necessary if prices are to continue at their present level, but will, of course, add correspondingly to the cost of business to the Government. Returning soldiers are being rapidly and steadily absorbed into business, and the problem which for a time seemed to threaten in this connection is now apparently minimized in all directions. From the farming districts particularly comes the report that the supply of labor is scanty and likely to prove more so as business progresses.

Official figures for the month of May now show exppr t balances of $277,000,000 and while this figure is considerably below that of the preceding month, it still represents an abnormally high balance. Exports of manufactures are beginning to show a relative increase as compared with shipments of foodstuffs supplied. The export problem has assumed greater proportions as a matter of immediate current business adjustment, and the month has seen several far-reaching plans for the financing of exports brought forward and urged. There has been a somewhat better development of shipping facilities during the month, and the growth of our trade with various countries, which has heretofore suffered from unsatisfactory methods of communications, bids fair to showing improvement. The export situation is being watched in many parts of the country and is regarded as a very important element in the maintenance of busindss. There is, however, less relative anxiety about it than heretofore, on account of the very great growth in the demand for domestic commodities, and the feeling that domestic business should have the first claim for attention.

Speculation during the month has reached an unprecedentedly high point, both in New York and elsewhere. Call money has been quoted as high as 15 per cent, and although this level was not long maintained, it was taken as an indication of danger and led to a reduction in the volume of stock speculation. An inquiry into the sources of funds for call loans has shown that they are widely distributed throughout the country, and that the tendency toward speculation is not localized, but general. Bankers are watching with particular interest the development of this movement on account of the large requirements of the crop season and the obvious needs for the financing of the export trade.

Government credit is in good condition, as evidenced by the high and rising market for Liberty bonds of practically all issues, particularly Victory notes. Apprehension is expressed in a number of quarters lest bankers may get into the habit of overlending, and lest the prevailing high prices for real estate and commodities may result in advances up to an unduly great portion of the normal value of the property or security offered.

As the year advances there is some tendency toward a strengthening of rates in various classes of commercial paper, while both stocks and bonds have, in spite of some reactions on the exchange, reached and fairly well maintained what are considered very high prices as compared with the levels existing during the war period. No marked movement in rates on the whole is evident. In certain centers, in particular Minneapolis and San Francisco, rates in general have declined. In other centers a somewhat firmer tone in rates is noted, although no pronounced instances of general increase in rates are noted. The low rates for customers' commercial paper on the whole have decreased, as have to a less marked extent both low and customary rates for commercial paper purchased in the open market. The Board's weekly figures for check transactions show a marked growth in the volume of operations, due no doubt to the increase in volume of business and heavy financing which has been in progress.

Removal of the gold embargo has been a feature of the month's developments, and has been followed by moderate shipments of gold which, however, are much more than offset by gold either imported or shortly to be imported, and whose early arrival is certain. Foreign exchange has been in most cases weak and lower than during the preceding month, francs and lira being in a particularly unfavorable condition. The banking situation as a whole is regarded as sound, credit and collections throughout the country being considered unusually good and failures unprecedentedly small and few.

FEDERAL RESERVE BOARD

WASHINGTON

Confirmation of Telegram

July, 1, 1919.
X-1602

Subject: Leased Wire Service.

Morss, Boston	Fancher, Cleveland	McDougal, Chicago	Wold, Minneapolis
Strong, New York	Peple, Richmond	Biggs, St.Louis	VanZandt, Dallas
Passmore, Philadelphia	Wellborn, Atlanta	Miller, Kansas City	Calkins, SanFran

Favorable replies having been received from all Federal Reserve Banks to the Board's wire of June 27th. "Basis Treasury payment telegraph service", commencing July 1st Treasury business will be handled on flat basis of 25% of the total cost of main line service, each Reserve bank to charge as fiscal agency expense 25% of its pro rata share leased wire cost. Board today approved report of Governors on leased wire service and effective July 1st expense of leased wire service will be pro rated between Federal Reserve Banks on per word cost basis.

HARDING

X-1603

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For immediate release,
July 2, 1919.

The Federal Reserve Board announces that, owing to the pressure of personal business, Mr. James E. Zunts has found it necessary to resign as Chairman and Member of the Board of Directors of the New Orleans Branch of the Federal Reserve Bank of Atlanta. Mr. P. H. Saunders, President of the Commercial Trust Savings Bank, New Orleans, who is at present a Director of the New Orleans Branch, has been appointed Chairman of the Board, and Mr. L. M. Pool, President of the Marine Bank and Trust Company, has been appointed a director to fill the vacancy in the board caused by the resignation of Mr. Zunts.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-1604

To be released for morning
papers, July, 4, 1919.

The Federal Reserve Bulletin for July was completed and sent to the printer today. Much of the matter contained in the issue relates to two important questions which have been before the Board during the month - the problem of export financing, and the raising of the embargo on gold and foreign exchange. With reference to the question of export financing, the Board calls attention first of all to the fact that the oversight and direction of this matter has passed from the hands of the Government to that of private interests, and must be carried forward by the latter. As to this the review of the month says:

"With the determination on the part of the Government that it will not continue the large participation in export trade financing undertaken during the war, but will leave this field to be developed by private enterprise, our export operations will henceforward call for the assumption of full responsibility on the part of financiers and business men who must recognize that the war period in our foreign business has ended. The war period in exportation comes to a close when Government support of foreign trade is removed and when business is left to maintain itself upon its own basis. That such should be the course of development from now on has for some time past been the view of the financial authorities of the Government - a view in which the Federal Reserve Board freely concurs, as indicated by the decision reached at the conferencesheld during the past month. The view of the Board is that the matter of providing long-term advances for Europe presents an investment rather than a banking problem; that the necessary funds must therefore come from the investment market. The question how to obtain these funds through an appeal to investors is, therefore, the immediate and practical problem of the moment in connection withh the financing of the business."

After calling attention to the recommendation to Congress already announced some time ago, whereby banks would be permitted to invest 5% of their capital and surplus in the securities of export corporations, the Board once more notes that the purpose of this provision is not primarily that of obtaining funds, but is merely that of affording an example to private investors. The review of the month then passes to a discussion of the extent to which investors should commit their resources to the financing of the foreign trade and says:

"While the working out and application of financing the plans which are called for in connection with our export business is thus a matter to be disposed of by bankers and business men at their own risk, under such terms and conditions as are desired through negotiations with foreign buyers and consumers, the volume and direction of our export trade is essentially a question in which the American consumer, as well as the local producer and distributor, is vitally interested. As domestic business has resumed its activity and vitality, it has become more and more apparent that the supply of commodities available to the home consumer is becoming relatively reduced as compared with the demand for them. Already a tendency to advances in price is obvious, and it is clear that in some cases what is exported will constitute a deduction from the total needed supply, which will leave the buyer with inadequate means of meeting his requirements. Excessive shipments of goods therefore signify, even when buyers abroad are solvent and able to repay the advances thus made to them at some reasonable date in the future, a deduction from home consumption, which will leave the consumer in the United States in a less favorable position than he would otherwise have been. The value of our present excess of exports, announced as $277,000,000 for May, is still the outgrowth of war conditions, and the abnormal situation which has succeeded them."

As to the effect of the large exports upon prices the review notes that: "The export situation is possibly of most direct importance to the domestic consumer in a way that is very frequently overlooked. This is in connection with prices. There is a shortage of many essential materials and commodities in the world at large. Increased credit demand for goods for export necessarily implies relatively decreased supply of goods for domestic use. Demand and supply are autbmatically equalized by changes in price, but such changes in price are, in the circumstances here under consideration, necessarily upward. The domestic consumer, therefore, when asked to finance export trade, should remember that the outstanding effect of such financing upon too great a scale would necessarily be the exaggeration of the prices which he himself must pay for the things he needs. This necessarily means, therefore, that he is in a sense bidding against himself when he enables others to purchase overfreely with the funds which he has supplied. If a large export financing process is conducted by banks out of credit, the result is to place the fluid credit of the country at the disposal of foreigners in purchasing and settling for domestic products which they obtain from American producers. The situation is quite different in its effects from that which exists when domestic investors take up and pay for the commodities by actually turning over saved funds and withdrawing their own demand from the merchandise field. In this connection it is worth while to recall what is meant by inflation. Inflation has been defined by the Board as the process of making additions to credits not based upon a commensurate increase in the production of goods; in other words, not offset by genuine savings, this process resulting in an increased tendency toward the bidding up of prices. It is in order to avoid a recurrence of this menace in the form of an undue exportation of goods not purchased by a corresponding amount of savings that the Board has urged that the basis of export credit be found in the investment market and not at the banks. There is the same necessary opposition of interest between the domestic and export trade in such circumstances as that which existed between the needs of the Government and those of private individuals during the war; and there is the same argument in favor of the exercise of thrift by domestic buyers in order that they may provide the saved funds necessary to finance the movement of goods abroad that there was in connection with the purchase of Government obligations. It is for this reason that the amount of export trade securities to be purchased and held by banks must necessarily be limited to a minimum figure, in order that there may be no danger of unduly increasing the total amount of such obligations which find a place in the portfolios of banking establishments, and which to that extent tend to create the kind of inflation that results from the purchase and carrying an undue amount of long-term obligations by institutions which are engaged in providing purchasing power for current uses."

Considerable attention is given to the balance of trade theory, and to the effect produced upon this view of international relationships by the peculiar conditions and problems growing out of present export trade. On this subject the review says:

"The abnormal conditions which exist at the present time in connection with our export commerce are the reverse of those which ordinarily prevail when trade with other portions of the world is substantially equal, and when the 'balance' that may be found upon one side or the other of the account is small relatively to the total volume of the business. Under the latter conditions, goods are imported in somewhat the same proportion as they are exported, or in other words, the domestic market obtains a quantity of goods of about the same worth and volume that it has released. The relations between goods and purchasing power is thus kept substantially stable, and the financing of export trade has exactly the same effect as the financing of domestic business-if based upon actual consumable commodities which are regularly sold and consumed, it does not tend to change the normal price level. No "export problem" can then exist. The situation to-day is entirely different since we have at present relatively little importation into the United States to offset the great volume of goods which we are expected to ship abroad. Indeed, our trade with some of the European countries is almost wholly one sided. In the circumstances existing to-day, an extension of credit for the purpose of purchasing goods for export is to all intents and purposes a loan of capital, and has an effect very similar to the latter. The goods we are shipping abroad might have been used at home in productive enterprises, but instead they are parted with, presumably for productive purposes in other countries. This is a transfer of the country's capital in the real sense of the term. This entirely changes the financial aspects of the case, and necessitates a careful study of the conditions under which credit is to be extended or capital loaned abroad, as well as consideration, from the public standpoint, of the extent and degree to which it is desirable on economic grounds that American citizens should provide the funds that are necessary for the continuance of this unprecedented and enormous movement of goods out of the country. The idea of a balance of trade in which the surplus of exportation is paid for in money and is regarded as beneficial to the people of the country which obtains such payment disappears when the result of a continuation of such trade is obviously that of impairing or destroying the ability of the consumer at home to provide for his own needs. Trade with foreign countries which results in the actual shipment of goods to the United States, however, adds to the available supply of consumable commodities and so tends to ease and improve the consumer's condition."

The review further indicates that the absolute requirements of export financing have probably been overestimated in many quarters, and that as a matter of fact "some part of the export demand is likely to disappear as soon as actual commercial security is required for the protection of shipments. There is a substantial part of the trade which will provide its own liquidation if loans are wisely placed abroad. Some commodities will be enabled to move by the use of the advances which are supplied to foreign borrowers, while in other cases the loans will permit the completion of manufacturing operations which are as yet incomplete, and in which there are in considerable volume goods still remaining "tied up". Wise financing will thus in many cases serve to furnish its own means of settlement. It is quite probable, also, that as European countries succeed in reestablishing themselves, their recovery toward a self-supporting basis will be much more rapid than has been expected. Far more time is required for the expenditure of great sums in the purchase of goods than is generally comprehended. The war, with its tremendous drain upon the wealth of the world, is now over, and expenditures to be made for peace purposes or for reconstruction will require care and patience if they are to yield returns under competitive business conditions. They can not be over-hastily made, and this will in itself ease the urgency of the pressure for export financing. When all these elements have been eliminated there will remain a very great residue of urgent industrial requirements abroad, and these it is both economically and otherwise sound and desirable to finance as promptly and effectively as possible, in order that fofeign demand for our goods may be maintained, our markets conserved, and our general position in world trade protected."

Turning to the question of the gold embargo and the modification of it, the Board furnishes a statistical review of experience under the embargo as follows:

"The gold embargo has resulted in the issuance by the Board of approximately 1,142 licenses for the shipment of $152,326,976 of gold, about 1,500 licenses covering $502,756,003 of silver, and about 1,817 licenses covering $208,170,700 of currency other than United States gold and silver certificates. Some 755 applications of all classes were declined. The net movement of gold and silver into and out of the country since approximately the beginning of the gold embargo is represented in the following table:

GOLD AND SILVER IMPORTED INTO AND EXPORTED FROM THE UNITED STATES DURING THE PERIOD SEPT. 1, 1917, TO MAY 31, 1919.

	GOLD		SILVER	
	Imports	Exports	Imports	Exports
Sept. 1 to Dec. 31, 1917	$28,293,467	$54,247,766	$26,086,695	$32,362,293
Jan. 1 to Dec. 31, 1918	62,042,748	41,069,818	71,375,699	252,846,464
Jan. 1 to May 31, 1919	24,310,573	14,035,672	35,510,854	129,497,080
TOTAL	114,646,788	109,353,256	132,973,248	414,705,837

Excess of gold imports over exports since Sept. 1, 1917 $5,293,532
Excess of silver exports over imports since Sept. 1, 1917, $281,732,589

On the whole, therefore, the effect of the embargo may be said to have been that of holding practically intact the net national gold reserve -- this, at least, so far as the figures indicate the surface effects. On the other hand, there is a large field for inquiry as to the effect of the embargo, taken by itself, in changing the actual available bank reserve supply of both gold and silver. Whatever these effects may have been, they were necessarily more or less offset by other influences which were set at work, chief among them the effort to draw into the banks the floating gold supply actually in circulation and in the pockets of the people.

The situation produced in other countries by the establishment of the gold embargo is outlined in the following language:

"Pending further action by foreign governments, the United States stands today as practically the only free-gold market in the world, those neutral nations where no embargo exists being too small in the scope of their transactions or too limited in the operation of their banking machinery, to afford any genuine or well-developed world discount or gold market. Relations between the United States and other countries are therefore necessarily on a one-sided basis. This one-sided condition is rendered/the more peculiar and difficult by reason of the tremendous merchandise balance of trade which has been gradually developed. That merchandise balance for the past three calendar years may be stated in round numbers at about $9,000,000,000, and bids fair to run at something like the same rate for the current year. In the following table are set forth the figures showing the movement of goods between the United States and the rest of the world and/the net balance thereof.

MERCHANDISE IMPORTED INTO AND EXPORTED FROM THE UNITED STATES
DURING THE PERIOD SEPT. 1, 1917, TO MAY 31, 1919.

	IMPORTS	EXPORTS	EXCESS OF EXPORTS OVER IMPORTS
Sept. 1 to Dec. 31, 1917	$905,870,350	$2,084,070,750	$1,178,200,400
Jan. 1 to Dec. 31, 1918	3,031,304,721	6,149,392,647	3,118,087,926
Jan. 1 to May 31, 1919	1,317,677,449	3,136,799,301	1,819,121,852
TOTAL	5,254,852,520	11,370,262,698	6,115,410,178

"What is thus made evident is that although the United States has become possessed of the greatest single stock of gold in history, it is now the claimant of the greatest favorable merchandise balance ever before developed. This balance may be liquidated in any one of many ways, but in the absence of any other liquidation it would of course have to be paid in gold or remain as an open banking or book credit - that is to say, as a potential claim to gold. In these circumstances it is clear that the United States, while it may lose gold under the new regime to any one of a number of countries with respect to which its balance may be temporarily unfavorable, or to which for other reasons a small movement of gold would naturally set in, it can not lose gold in any considerable amounts relatively to its entire business, while such adverse movements as may occur in trade-isolated countries will tend to correct themselves. The United States, in other words, stands today as an almost irresistibly strong claimant of gold, and, but for the interferences with gold movements existing abroad, could theoretically draw to itself most of the remaining free gold of the world."

The Board again calls attention to the speculative situation and the need of repressing overspeculation, reiterating its warning of a month ago in the following language:

"During the month of June speculation has continued on a high level, although it has been subject to many fluctuations. On June 16 call money reached 15 per cent in New York, and on June 10 the Board sent a letter to all Federal Reserve Agents asking for information concerning the purposes for which funds obtained by rediscounting were being used by member banks. This letter was made public and one effect of it was apparently that of leading some banks to hesitate about making applications for rediscounts where the funds were unquestionably intended for purely speculative purposes. After the middle of June the volume of speculation on the New York stock exchange was reduced from one-fourth to one-third for some days, and this lessening of the demand for money naturally lowered the intensity of the demand for funds which had previously made itself felt. The extremely high level of prices for stocks, and for staple commodities for which there exists a speculative market, which had been developed in New York and elsewhere, and the fact that speculation has spread widely throughout the country, has undoubtedly had a considerable effect in drawing heavily upon the available liquid resources of banks, which at best were none too abundant prior to the time when speculation fever became well marked. It is well to reiterate the fact that the funds of the Federal Reserve System are in no sense intended for the support of speculation and that member banks should bear this in mind when arranging for the extension of accommodation to borrowers."

After the usual review of business and financial conditions during the month and the special reports on conditions in the several districts, the July Bulletin furnishes an estimate of the effect of the war on the Country's real wealth, which has been prepared under the direction of the Secretary of Agriculture as follows:

I. PRODUCTION
(000 omitted)

	Prewar annual average, 1909-1913	1914	1915	1916	1917	1918
Cereals ..bu.	4,801,000	*4,983,000	6,011,000	4,793,000	5,681,000	5,508,000
Potatoes. bu. (sweet & Irish)	414,000	466,000	435,000	358,000	526,000	486,000
Meat ... lb.	- -	15,587,000	16,721,000	17,893,000	16,325,000	19,495,000
Dairy products:.lb.						
a. Factory butter	- -	786,000	- -	760,000	744,000	793,000
b. " cheese	--	377,000	- -	315,000	372,000	353,000
c. Condensed milk	- -	875,000	- -	998,000	1,354,000	1,075,000

*Does not include grain sorghums, which was probably about 100,000,000 bushels.

II. EXPORTS FOR FISCAL YEARS ENDING JUNE 30.
(000 omitted)

		Prewar annual average 1910-1914	1914	1915	1916	1917	1918
Cereals..........	bushels	162,000		517,000	419,000	387,000	318,000
Meats	pounds	1,291,000	-	1,500,000	1,828,000	1,872,000	2,271,000
Dairy products:							
a. Factory butter	"	4,278	3,693	9,851	13,487	26,835	17,736
b. " cheese	"	4,916	2,427	55,363	44,394	66,000	44,331
c. Condensed milk	"	15,774	16,209	37,236	159,600	259,100	529,750

THE PRODUCTION AND EXPORT FIGURES FOR WHEAT FOR THE YEARS INDICATED ARE AS FOLLOWS:

PRODUCTION.

	Bushels.
Prewar annual average (1909 - 1913)..................	687,000,000
1915	1,026,000,000
1916	636,300,000
1917	636,650,000
1918	917,000,000

EXPORTS, FISCAL YEARS ENDING JUNE 30.

Prewar annual average (1910-1914)	105,000,000
1915	333,000,000
1916	243,000,000
1917	204,000,000
1918	133,000,000

Results of a study made by a committee of Government experts into the general subject of branches of American concerns in foreign countries is also published. This has to do with banking branches, insurance branches, trading branches and manufacturing.

Continuing the Board's past studies of foreign branch conditions, an analysis is furnished with reference to the operations of the Netherlands Bank and the Javasche Bank during the war. Rulings and opinions of Counsel, and the usual statistical summaries are included, as well as a special study of housing and living conditions in New York, prepared under the supervision of the Federal Reserve Bank of New York.

FEDERAL RESERVE BOARD

WASHINGTON

July 2,1919.

X-1605

Subject: Appointment of Mr. Emerson, Acting Assistant Secretary.

Dear Sir:

The Federal Reserve Board has appointed Mr. R.G. Emerson Acting Assistant Secretary, and as such he is authorized to sign communications on behalf of the Board.

Very truly yours,

Secretary.

Letter to Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

July 3,1919.
X-1607

Subject: Comments by Federal Reserve Board in re Report of Governors of Federal Reserve Banks covering improvements in Service and Distribution of Expenses of Federal Reserve Leased Wire System.

Dear Sir:

The Federal Reserve Board has approved the report of the Governors of the Federal Reserve Banks, a copy of which is enclosed, with regard to improvements in service of the Federal Reserve leased wire system, and suggests that the recommendations embodied therein be effective July 15th, except with regard to the topics discussed below.

IMPROVEMENT IN SERVICE

Topic (f). Wire transfers of funds through the Federal Reserve Banks shall be strictly limited to those ordering payments or credits to banks or bankers. Direct payments by Federal Reserve Banks to individuals, firms, or corporations other than banks will not be permitted, but such transfers can be effected through their banks.

For example: A message requesting one Federal Reserve Bank to deposit with another bank a certain sum of money for the account of an individual, firm, or corporation, is proper and will be handled; on the other hand, a request for a Federal Reserve Bank to pay direct to an individual, firm or corporation other than a bank or banker, funds over its own counter, or otherwise, will not be handled.

With reference to the above topic (f), it is the understanding of the Board that wire transfers of funds through the Federal Reserve Banks and branches may be ordered by member banks only.

In the example quoted in the report under topic (f), marked "For Example", in a case where a transfer is made from a member bank through Federal Reserve Banks to anotherbank for the account of an individual, firm or corporation the Board believes that the sending Federal Reserve Bank should accept the transfer from the member bank with an agreement to the following effect:

> "The liability of the Federal Reserve Bank is limited solely to the proper transfer of the funds to the receiving Federal Reserve Bank for credit to the account of or for payment to the payee bank."

Topic (j). A manual outlining the plan of operation of the system shall be prepared for the guidance of operators and for the information of others concerned with the handling of telegrams. This manual, or set of rules, would embody the general instructions under which we are operating and it is recommended that the Federal Reserve Bank of Chicago, which is responsible for the operation of the system, be charged with the preparation of the same.

The Federal Reserve Bank of Chicago has been requested to prepare a manual in accordance with the above recommendation to be reviewed and approved by the Board and distributed to all the Federal Reserve Banks for use by persons concerned with the handling of telegrams over the leased wires.

Topic (k) Recommended that: The Federal Reserve Bank of Chicago shall be considered as the managing center of telegraph service of the Federal Reserve Banks, and that the Federal Reserve Board be asked to issue a letter to that effect to the several Federal Reserve Banks.

The Federal Reserve Board approves the above recommendation. All matters pertaining to the operation of the leased wires should be referred to the Federal Reserve Bank of Chicago. All matters of general policy, as heretofore, will be submitted to the Board for approval.

DISTRIBUTION OF EXPENSES.

The Federal Reserve Board approves the recommendation made by the Governors that the expense of the system be prorated among the twelve banks according to the total number of words sent by the banks during the month, the new method to be effective commencing July 1, 1919. From that date each Reserve Bank will keep a daily record of the total number of words sent over the leased wire. The bills rendered, covering business handled during the month of July, will be based upon the number of words sent by each bank.

Under an arrangement with the Treasury Department, Federal Reserve Banks were authorized to charge 50% of the total main line leased wire expense as a fiscal agency expense. This arrangement terminated June 30, 1919. The Board was advised that commencing July 1, 1919, the Treasury Department would be willing to pay a flat rate of 25% of the total main line leased wire expense or to pay on a per word cost basis. Governor McDougal, Chairman of the Leased Wire Committee, recommended that the Treasury business be handled on a flat basis of 25%. This recommendation was submitted to the Governors of the Federal Reserve Banks by wire, and all have wired approval to the Board. Accordingly, commencing July 1, 1919, the Federal Reserve Banks will reimburse themselves on account of fiscal agency business by charging to the Treasury Department 25% of their prorata share of the monthly expense. The War Finance Corporation will continue to reimburse the system for its telegrams at the Government rate.

Very truly yours,

Governor.

Letternto Governors of all Federal Reserve Banks.

REPORT OF GOVERNORS OF FEDERAL RESERVE BANKS TO FEDERAL RESERVE BOARD COVERING RECOMMENDATIONS FOR IMPROVEMENT IN SERVICE AND DISTRIBUTION OF EXPENSES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM.

The committee appointed at the recent conference of Governors, to consider ways and means for improving the leased wire service and to provide, if possible, a more equitable division of the expense of the system, asked for suggestions along these lines from the Federal Reserve Banks and the Federal Reserve Board, and after considering carefully all suggestions received, respectfully submits the following recommendations:

IMPROVEMENT IN SERVICE

(a) Only fast and experienced operators should be employed.

(b) To facilitate prompt routing and delivery of messages received, each message should indicate the department for whose attention it is intended in the receiving bank and also the department in the sending bank for whose attention reply, if any, should be directed.

(c) The custom of using the words "quote, stop, period," etc., should be discontinued through the use of ordinary punctuation in preparing copy, for which symbols are understood by all operators, as per copy attached.

(d) Brevity should be observed in wording telegrams, and in no case should the wire be used when the mails would serve the same purpose. Each office should arrange for a careful censorship of all messages sent, with a view of eliminating unimportant telegrams and unnecessary words.

(e) That the wire service of the System shall be limited to messages between Federal Reserve Banks, their branches, and departments of the government. Commercial messages, and messages signed by member banks, cannot be sent over the wires of the System without violation of the Interstate Commerce Law.

(f) Wire transfers of funds through the Federal Reserve Banks shall be strictly limited to those ordering payments or credits to banks or bankers. Direct payments by Federal Reserve Banks to individuals, firms, or corporations other than banks will not be permitted, but such transfers can be effected through their banks.

For example: A message requesting one Federal Reserve Bank to deposit with another bank a certain sum of money for the account of an individual, firm, or corporation is proper and will be handled; on the other hand, a request for a Federal Reserve Bank to pay direct to an individual, firm, or corporation other than a bank or banker, funds over its own counter, or otherwise, will not be handled.

(g) One transfer of funds should constitute a message, for if several are included, an inaccuracy in the test word delays them all. The time limit fixed for the acceptance of transfers for current execution should be strictly adhered to except in extreme cases. This would guarantee that credits would be made on day of receipt.

(h) That all telegrams between Federal Reserve Banks involving the payment of moneys or transfer of funds shall be identified by consecutive numbers, one set of such consecutive numbers to apply to the messages sent to each other Federal Reserve Bank, respectively. That the first word of each message shall be a code word, indicating the consecutive number of the message; and that the last word of each message shall be a code test word, in determining which one factor shall be the consedutive number indicated by the first code word of the message. That the remaining factors in determining the last test word shall consist of items A,D,E,F, and G of the formula for determining test words now in use between Federal Reserve Banks. That as an additional safeguard to the above, the item A (the correspondent's index number) shall be changed by the Federal Reserve Bank on receipt of advice from the Federal Reserve Bank of Chicago, to reach each bank at least three days before the change shall become effective. That these advices shall be sent under confidential cover, by registered mail, addressed to the Governors of the respective Federal Reserve Banks.

(i) In the opinion of this Committee, the time has now come when, for the protection of Federal Reserve Banks and their members, a special code system with individual test words for each member should be devised for use with Federal Reserve Banks and their members and between Federal Reserve Banks, at least in all instructions given by wire involving the transfer or payment of funds, and this Committee recommends that:

A committee be appointed by the Governors in conference, to consider and prepare a code that will be comprehensive as to all matters of transfer of funds, the delivery of securities, and such other matters as they may deem necessary.

(j) A manual outlining the plan of operation of the System shall be prepared for the guidance of operators and for the information of others concerned with the handling of telegrams. This manual, or set of rules, would embody the general instructions under which we are operating, and it is recommended that the Federal Reserve Bank of Chicago, which is responsible for the operation of the system, be charged with the preparation of the same.

(k) Recommended that:

The Federal Reserve Bank of Chicago shall be considered as the managing center of the telegraph service of the Federal Reserve Banks, and that the Federal Reserve Board be asked to issue a letter to that effect to the several Federal Reserve Banks.

DISTRIBUTION OF EXPENSE

It is recommended that the expense of the system be prorated among the twelve banks according to the number of words sent by each bank, instead of according to the capital stock, the present method. Each bank would reimburse itself in the same manner as it now does, by charging one-half of its pro rata to the Treasury Department as a part of the expense of fiscal agency operations. The War Finance Corporation would continue to reimburse the system for its telegrams figured at government rate.

While the business sent by the Treasury Department does not represent one-half of the total volume of business sent over the wires, consideration must be given to the fact that all overhead expenses of the system, such as office rent, clerical help, messenger service, etc, are borne by the banks, and only operators' salaries and wire rental are prorated.

This plan would not only provide a fairer division of the expense, but would tend th make the banks exercise more care in eliminating unnecessary words in sending telegrams. This method, if adopted, could be made effective without delay.

The attached reports show (1) the total number and classification of words sent over the leased wires during the week ending April 12th, (2) the division of the expense under the present and proposed plans of distribution.

X-1596

DIVISION OF EXPENSE OF THE LEASED WIRE SYSTEM

Schedule A

The following figures show the percentage of cost borne by each Federal Reserve Bank and the Treasury Department (1) under the present plan of distributing cost, i.e. apportioning the total cost among the twelve banks according to capital stock, each bank charging the Treasury Department with one-half of its share, and (2) under the proposed plan, i.e., apportioning the total cost among the twelve banks according to business done, each bank charging the Treasury Department as in plan (1).

	(1) Percentage paid under present method	(2) Percentage paid under proposed method
Boston	.0416	.016
New York	.1284	.0857
Philadelphia	.0465	.019
Cleveland	.0566	.0403
Richmond	.0252	.0423
Atlanta	.0195	.0185
Chicago	.0693	.0566
St. Louis	.0235	.0401
Minneapolis	.0181	.0158
Kansas City	.0229	.0677
Dallas	.0197	.0391
San Francisco	.0287	.0589
Treasury Department	.50	.50
Total	100%	100%

Both of the above plans contemplate that the War Finance Corporation will reimburse the system for business chargeable to it figured at government rate.

To arrive at the percentages shown under plan (2), the total number of words sent during the week April 12th by each bank exclusive of those pertaining to War Finance Corporation, was used as a basis.

X-1596

REPORT BASED ON FIGURES RECEIVED FROM FEDERAL RESERVE BANKS AND WASHINGTON SHOWING TOTAL NUMBER AND CLASSIFICATION OF WORDS SENT OVER LEASED WIRE SYSTEM FOR WEEK ENDING APRIL 12, 1919.

Schedule B

	Bank Business	Fiscal Agent	War Finance	Total
Boston	6,680	828	676	8,184
New York	37,460	2,712	1,481	41,653
Philadelphia	7,570	1,354	877	9,801
Cleveland	16,176	2,701	1,511	20,388
Richmond	16,871	2,914	1,423	21,208
Atlanta	7,245	1,441	1,220	9,906
Chicago	23,189	3,315	1,026	27,530
St.Louis	15,934	2,882	1,631	20,447
Minneapolis	5,936	1,437	804	8,177
Kansas City	28,630	3,102	1,653	33,385
Dallas	16,994	1,365	1,157	19,516
SanFrancisco	22,052	5,528	1,426	29,006
Washington	41,475	35,747	11,972	89,194
Total	246,212	65,326	26,857	338,395

Bank business is	.728	of	total
Fiscal Agent business	.193	"	"
War Finance Business	.079	"	"
	100%		

X-1596

LEASED WIRE SYMBOLS

Schedule C

PN	Begin parenthesis	DX	Dash
PY	End "	DN	Interrogation
QN	Begin quote	CX	Capital letter
QJ	End "	15	Small letter
QX	Begin quote within quote	E5	Not abbreviated
QY	End " " "	HX	Hyphen
UX	Underline, or all caps	NX	#
UJ	End of underline or caps	MM	Paragraph
KO	Colon	OSO) or) % OUTO)	
SI	Semicolon		
QX	Aposthophe	Asterisks indicated by x's	
KQ	Colon followed by quotation	Comma	dot dash dot dash
KX	Colon, dash	Period	dot dot dash dash dot dot

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

CONFIRMATION OF TELEGRAM.

SUBJECT: Call for Condition Reports,
June 30, 1919.

July 5, 1919.
X-1609

Curtiss - Boston	Hardy - Richmond	Rich - Minneapolis
Jay - New York	McCord - Atlanta	Ramsay - Kansas City
Austin - Philadelphia	Heath - Chicago	Ramsey - Dallas
Wills - Cleveland	Martin - St. Louis	Perrin - San Francisco

Please instruct all member banks in your district other than National banks to report condition on revised form 105 as of close of business June 30, 1919. This report should be in your hands within ten days after receipt of call by reporting bank. Comptroller is making call as of same date. Please acknowledge by wire.

HARDING.

COPY

FEDERAL RESERVE BANK X-1610

OF NEW YORK.

June 26, 1919.

Dear Sir:

Replying to your favor of the 19th instant, X-1586, on the subject of the transfer of certain Subtreasury functions to Federal reserve banks, I am now replying, so far as it is possible to do without an extensive investigation of this whole subject such as might unduly delay a reply, and this letter represents in general the views held by the officers of the bank.

1. We all agree that it is desirable that many of the functions now exercised by the Subtreasury in New York should be performed by the Federal Reserve Bank, and that the transfer can be effected in the near future without inconvenience either to the public or to this bank, provided certain conditions are dealt with, which are referred to later.

2. (a) Storage and Custody of Trust Funds: It is agreed in general that it will be undesirable to transfer the trust funds to the Federal reserve banks, and the method of dealing with them suggested in memorandum X-1586-a appears to be the best and most practicable, with the exception, however, of the fund of $153,000,000, approximately, held for the redemption of United States Notes and the retirement of Treasury Notes. The gold reserve against the $346,000,000 of United States Notes now outstanding is approximately 45%, without allowance for greenbacks which may have been destroyed and lost during the last fifty years. In our opinion, the time has arrived when legislation should be sought from Congress authorizing the Reserve banks to assume the greenbacks, retire them as rapidly as they come in for redemption and issue Federal reserve notes in place thereof. This would involve a transfer of the gold reserve

to the Federal reserve banks, and the issue of a Government obligation to the Reserve banks for the difference between the amount of gold and amount of United States notes assumed.

This suggestion justifies stating quite fully the objectsto be gained and the reasons for attempting it:

First, it will result in the consolidation and simplification of the country's currency.

Second, it will vitalize $153,000,000 of gold which now, in fact, does not serve as reserve in our banking system, nor, since the establishment of the Reserve banks, does it serve practically any useful purpose except to exhibit to the country that a gold fund exists for the redemption of greenbacks which it is unlikely will ever be presented for gold redemption under the new conditions.

Third, it will ultimately retire the debt created during the Civil War, which in its origin certainly was unsound, and which has been a bad influence upon monetary and currency legislation ever since, and will continue to be a reminder to the public and to Congress of monetary and financial expediency of an unsound or even destructive nature.

My suggestion naturally raises the thought that if legislation in regard to the subtreasuries necessarily involves dealing with trust funds, this particular trust fund may be dealt with by the method proposed most naturally and logically because it would simply involve the substitution of one Government obligation, namely, Federal reserve notes, for another Government obligation, to wit, United States notes, behind which there is now held substantially a similar percentage of reserve. Should the argument be advanced that this was an effort by the Reserve banks to add to their gold holdings for purposes of expansion, etc., the answer is that the expansion has already taken place and this is simply recognition of its existence without necessarily increasing it; but, on the other hand, giving opportunity for decreasing it because of the elastic character of our circulation, which we contract upon a fixed gold basis whenever business declines and contraction is desirable.

If this opportunity is not availed of to deal with the greenbacks, it would appear that no subsequent opportunity of as favorable a character could be expected. It would/be necessary to introduce a bill which would be greenback legislation and nothing else, whereas this will be a part of the general scheme of dealing with the subtreasuries' trust funds, etc., in a scientific manner.

The bonds to be issued by the Government should be at a suitable rate of interest offset by a tax to reduce the cost to the Government to a reasonable amount and the profit to the banks to such sum as would defray the expense of managing, printing, etc., of this large volume of small bills.

The Federal Reserve Act provides that the surplus earnings of the Reserve banks may, in the discretion of the Secretary of the Treasury, be applied to increasing the gold redemption fund behind the greenbacks, or to retiring the Government's debt. The effect of this proposal would be to consolidate those purposes, as the Secretary of the Treasury would apply the tax payment, which after this year will be quite large, to the repayment of the bonds held by the Reserve banks, having exactly similar effect to increasing the gold redemption fund.

The history of legislation amending the Federal Reserve Act and legislation of similar character since the Reserve banks were established leads me to believe that the time is opportune, and that little danger of unsound propositions is to be apprehended if the Secretary of the Treasury and the Federal Reserve Board are willing to submit definite recommendations and stand firmly behind them.

One danger to be apprehended, however, is the charge that we are eliminating from the currency the only paper in circulation which is legal tender. This is more apparent than real, because the greenbacks are now so split into small denominations that their value in a large way for legal tender purposes is very slight. I would not hesitate to offset this suggestion with the recommendation that Federal reserve notes be made legal tender, or at any rate, failing that, that they be redeemable in gold at any Federal reserve bank as, with the greenbacks retired, gold coin would hereafter be the only conveniently available currency for legal tender purposes.

The Board will doubtless observe that with this change effected in our currency the whole currency problem becomes considerably simplified. The provisions of the Federal Reserve Act for the retirement of National Bank notes, together with the almost complete retirement of gold certificates and the great reduction in the volume of silver certificates, leaves the bulk of our circulating medium Federal Reserve notes, with some hope that in time all paper currency may be consolidated into this one note issue. I shall hope that the policy of the system would contemplate, likewise, the ultimate retirement of Federal reserve/bank notes.

The Board's attention is called to the report of the conference of governors, dated June 11, 1917, containing, at the foot of page 8, a recommendation in regard to the retirement of greenbacks, which I believe was unanimously adopted by those at the meeting.

As to gold certificates, they are now quite generally out of circulation; they are not legal tender; and, unless the quality of Federal reserve notes in that respect is changed it appears to us quite probable that such demand as arises for gold will take the form of a demand for gold coin rather than gold certificates and that special provision for issues of gold certificates such as are called for from time to time could readily be made in such a way that they could be issued through the Federal reserve banks.

2. (b) Distribution of Subsidiary and Minor Coins: We do not believe that any difficulty will be presented in arranging for the Reserve Bank at New York to handle the distribution of subsidiary and minor coins, which is now handled by the Subtreasury of New York, but, inasmuch as the establishment of twelve centres of distribution, in place of the subtreasuries and the Denver Mint, will somewhat change the relationship between the banks and the distributing points, it seems to us to be necessary to work out some uniform plan to cover shipping charges which will be rigidly adhered to by all the Reserve banks, as, otherwise, inequality of service might result from the change.

2. (c) Exchange of Subsidiary and Minor Coins: There would seem to be no difficulty in arranging to take over this function, and I assume that the Reserve banks will be protected, if the protection is not already afforded by existing law, against abrasion losses.

I am not sufficiently familiar with the statutes with regard to our coinage to be certain that these functions can be exercised in our capacity as depositary, and I am asking Mr. Curtis to make an investigation of the statutes in this and other matters relating to the proposed change.

2. (d) Exchange of Currency: We are under the impression that the Federal Reserve Bank of New York is today handling a much larger volume of currency in its money department than has ever been handled at the Subtreasury in New York, and there will apparently be no difficulty in enlarging our organization to handle such additional business as would result from this consolidation. The custom of this bank in making shipments of unfit currency to the Treasury for redemption is substantially similar to that adopted by the Subtreasury at New York.

2. (e) Payment of checks over the counter: This matter will be investigated at the Subtreasury, if you will authorize us to discuss the

matter with the Assistant Treasurer of the United States at New York. We do not feel authorized to do so in view of the confidential character of your letter. We are under the impression that it will necessitate some changes in our present paying facilities, but nothing which can not be suitably arranged, particularly if the suggestion is adopted in regard to the Subtreasury building hereafter mentioned.

2. (f) Costs: This heading raises the entire subject as to the relations between the Treasury and the Federal reserve banks, and I take the liberty of repeating in this letter something which I believe has already been submitted in former letters to the Federal Reserve Board or to the Secretary of the Treasury, - With the earnings of the Federal reserve banks now reaching the point where large payments of excess earnings will shortly be made to the Treasury Department, there will be constantly presented the temptation to enlarge the functions and services of the Reserve banks both for the Treasury Department and for the member banks, and we are most anxious that at no time the charge can be made that the revenues of the Reserve banks are used in such a way as to escape the necessity of going to Congress for appropriations. In general we think the principle should be adopted that the Federal reserve banks should be reimbursed for the expenses involved in performing their functions as fiscal agents, possibly even that a basis of compensation should be arrived at, the effect of which would be simply to swell the profits of the Reserve banks, which, in turn, would result in a greater payment to the Treasury, so that the principle underlying all the financial affairs of the Government would apply to the reserve banks, viz., that no money may be paid out of the general fund of the United States except under authority of an appropriation act by Congress. The argument that the cost of the Subtreasury system is only $500,000 per annum, which can be absorbed out of the profits of the Reserve banks, strikes us generally as contemplating a violation of a

principle which is so fundamental in our Government as to give occasion for grave doubt.

2. (g) Fiscal Agents: This topic raises a legal question of great significance to the Reserve banks and to the Treasury. As depositaries of the general fund of the Government, our relations are those recognized legally as that of debtor and creditor and, as such, our powers are limited and our functions as an agent practically nil. As soon as the Reserve banks assume duties such as those contemplated by the transfer of the business now conducted by the subtreasuries, it makes little difference whether the banks are regarded as performing those functions as depositaries or as fiscal agents, the facts would probably be found to control, namely, that we were acting as fiscal agents and that our duties and responsibilities and liabilities would be determined by that actual relationship rather than by an assumed relationship of debtor and creditor.

In general, it seems that the Federal reserve banks are able to perform these duties as fiscal agents just as capably, and with just as little liability of loss or inconvenience to the Government as are the Government's own officials, i. e., Assistant Treasurers at the Subtreasuries, and our inclination now is to strongly recommend that any distinction in legal relationship between that of debtor and creditor and depositary be made perfectly clear and it be understood that we are not assuming to perform fiscal agency duties as depositaries and endeavoring to create a fiction which would not stand the test of the courts.

2. (h) Subtreasury Buildings: The subtreasury building in New York is a monument of national importance. We would very much regret, and believe the people of this city would resist, any effort either to do away with the building or to transfer it to some other service of the

Government than that having to do with the operations of the Treasury Department. The entire building needs remodeling inside, and new vaults should be constructed. Our suggestion would be that, temporarily, when the transfer is effected, this building be turned over to the Reserve bank for the conduct of the business which can readily be housed in that building, with provision to be made in our new building for a temporary transfer of the business now done in the subtreasury pending the construction of new vaults and the rearrangement of the interior, and, when both our new buildings and the subtreasury building are completed and remodeled, the subtreasury building be used by the Reserve bank permanently for such departments of the bank, - principally, I believe, the money and coin departments, - as can be conveniently handled there and and as will best serve the needs of the banking community in that congested area. If that were done, it would be very simple to have the clearings effected in that building should arrangements ever be effected with the clearing house to have the clearings take place at the Reserve bank.

2. (i) Compensation: Should the suggestions under the heading "Costs" and in the last paragraph, appear to be feasible, I am under the impression that an arrangement could readily be worked out by which the subtreasury would remain the property of the United States, to be used by the Reserve bank at a fair rental, and the payment of rental to be considerably offset by an allowance of expenses and compensation in conducting the work of the Treasury.

In conclusion, I hope that no legislation is undertaken along the line of the suggestion contained in the memorandum accompanying your letter without a very thorough study of all the statutes of the United States bearing on this matter. If the change is to be effected, I should hope that it would be thorough going and take place after a sufficient lapse of time to enable us to effect the change without any inconvenience to any of the interested parties,

Very truly yours,

(Signed) BENJ. STRONG

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BOARD

WASHINGTON

July 9, 1919.
X-1611

SUBJECT: Telegraphic Charges.

Dear Sir:

The attention of the Board has been directed to the fact that there is no uniform policy in regard to the payment of charges on telegrams addressed to Federal Reserve Agents by member banks and managers of clearing houses reporting figures which are used by the Board in its weekly published statements.

The following practice is suggested and the Board requests that you so advise reporting member banks and managers of clearing houses in your district.

All telegrams furnishing information with regard to the weekly reports requested by the Federal Reserve Board should be addressed to the Federal Reserve Agent and sent collect with a notation on the telegram as quoted in example below:

> "Official business. Government rates.
> Charge Federal Reserve Agent, Federal
> Reserve Bank, Boston, Mass."

The Federal Reserve Banks will, of course, as heretofore, continue to bear the cost of these messages.

Kindly acknowledge receipt.

Very truly yours,

Assistant Secretary.

LETTER SENT TO ALL FEDERAL RESERVE AGENTS.

X-1612.

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

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.

FEDERAL RESERVE BOARD

WASHINGTON

July 10, 1919.

X-1613

SUBJECT: Code messages to be used in rediscount transactions between Federal Reserve Banks.

Dear Sir:

In view of the large number of rediscount transactions between Federal Reserve Banks and the necessity that they be consummated quickly, and also in order to relieve some of the congestion on the leased wires, the Board suggests the use of the following code messages, effective July 21, 1919:

(a) To be sent by the bank wishing to rediscount, to the Board:

CODE WORD:

CENTER ..... Please arrange for this bank rediscount (date) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days. Gold Settlement Fund transfer.

(b) To be sent by the Board to the rediscounting bank:

TEMPER ..... Board has requested (Chicago) rediscount for your bank (date) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days rate (see code given below). Gold Settlement Fund transfer. Please arrange details direct.

(c) To be sent by the Board to the discounting bank:

TANNER ..... Board requests your bank to discount for (Dallas)(date) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days rate (see code given below). Gold Settlement Fund transfer. Please arrange details direct.

(d) To be sent by the discounting bank to the rediscounting bank:

HAMMER ..... In accordance with request of the Federal Reserve Board we shall be pleased to discount for your bank (date) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days rate (see code given below). Please deposit paper with Federal Reserve Agent of your bank for account Federal Reserve Agent this bank and have him wire our Agent acknowledging receipt of bills and collateral. Wire details reporting separately amount secured by certificates of indebtedness and amount secured by Liberty bonds and Victory notes; also please forward schedules. Payment will be made through Gold Settlement Fund direct transfer.

(e) To be sent by the Agent of the rediscounting bank to the Agent of the discounting bank:

PAMPER ..... I have received from the Federal Reserve Bank of (Dallas) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days rate (see code given below) and am holding same in trust for you for account of Federal Reserve Bank of (Chicago) which bank is discounting above paper. Detail figures and schedules will follow:

(f) To be sent by discounting bank to Board:

HANGER ..... In accordance with Board's request we will discount for (Dallas) ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days at rate (see code given below). We are arranging details direct with (Dallas). We are making Gold Settlement Fund transfer (date).

TINDER ..... Four per cent on paper secured by certificates of indebtedness and four and one-quarter per cent on paper secured by Liberty bonds or Victory notes.

Kindly acknowledge receipt.

Very truly yours,

Secretary.

LETTER SENT TO CHAIRMAN OF ALL BANKS

FEDERAL RESERVE BOARD

WASHINGTON

July 10, 1919.

X-1614

SUBJECT: Campaign for New Par Points.

Dear Sir:

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of June 28th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

In addition there is also enclosed a special report showing nonmember banks not on par list distributed by States according to Federal Reserve Districts.

Very truly yours,

Assistant Secretary.

Enclosure.

LETTER SENT TO ALL CHAIRMAN.

CAMPAIGN FOR NEW PAR POINTS

REPORT OF FEDERAL RESERVE BANKS JUNE 30, 1919.

Federal Reserve Bank of	National Banks in District	State Bank Members	Total Member Banks	Nonmember Banks on Par List	Ratio of nonmember Banks on Par List to total nonmember banks in district	No. of Banks added to Par List during June 1919.	No. of Banks added to Par List since Jan. 1,1919	No. of non-member banks not on Par List	Total No. nonmember banks in District
					%				
Boston	393	34	427	243	100	-	-	-	243
New York	625	107	732	319	100	-	-	-	319
Philadelphia	632	36	668	407	100	51	70	-	407
Cleveland	745	80	825	833	76.1	62	155	261	1,094
Richmond	530	42	572	339	23.8	40	65	1,083	1,422
Atlanta	366	58	424	319	20.0	23	69	1,276	1,595
Chicago	1,047	305	1,352	3,035	72.9	27	655	1,131	4,166
St. Louis	468	52	520	1,560	60.4	137	530	1,023	2,583
Minneapolis	811	75	886	1,308	45.8	17	144	1,546	2,854
Kansas City	971	31	1,002	2,292	70.6	19	111	953	3,245
Dallas	628	113	741	323	26.8	22	150	883	1,206
San Francisco	567	103	670	910	85.6	3	- 1	153	1,063
TOTAL	7,783	1,036	8,819	11,888	58.9	401	1,949	8,309	20,197

FEDERAL RESERVE BOARD
WASHINGTON
July 10, 1919.

A BILL.

TO AMEND THE ACT APPROVED DECEMBER 23, 1913,

KNOWN AS

THE FEDERAL RESERVE ACT.

.............ooOoo...........

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by adding a new section as follows:

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS.

Section 25 (a): Corporations to be organized for the purpose of engaging principally in international or foreign banking or other financial operations, or banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five.

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulations of its business and the conduct of its affairs.

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

First: The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

Second: The place or places where its operations are to be carried on.

Third: The place in the United States where its home office is to be located.

Fourth: The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth: The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth: The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this Section.

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary and, thereafter, the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate the association shall become and be a body corporate, and, as such, and in the name designated therein, shall have power under such conditions and regulations as the Federal Reserve Board may prescribe to adopt and use a corporate seal which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain and defend in any court of law or equity; to elect or appoint directors, a majority of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them and fix the penalty thereof; dismiss such officers or employees , or any thereof, at pleasure, and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Each corporation so organized shall also have power:

(a) To purchase, sell, discount and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers and other evidences of indebtedness; to purchase and sell securities, including the obligations of the United States or of any State thereof; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell, exchange, coin and bullion; to borrow and to lend money on real or personal security; to receive deposits; and generally to exercise such powers as are incidental to the powers conferred by this act or as may be usual in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business.

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe; and to establish and maintain such additional branches or agencies as the Federal Reserve Board may from time to time authorize even in countries or dependencies not specified in the original organization certificate.

(c) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency or insular possession of the United States, not transacting business in the United States, except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business; provided, however, that without the consent of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of ten per centum of its own capital and surplus. The provisions of

Section 7 of the Act approved October 15, 1914, entitled "An Act to Supplement Existing Laws against unlawful restraints and monopolies and for other purposes," shall not apply to corporations or to officers, directors or employees of corporations organized under this section.

(d) Corporations organized under authority of this section may be granted permission by the Federal Reserve Board to exercise any or all of the powers specified in Section 11(k) of the Federal Reserve Act in so far as the exercise of said power may be necessary in the conduct of the foreign or international business engaged in by such corporations.

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business; and provided further that except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this Section.

No corporation shall be organized under the provisions of this section with a capital stock of less than two million dollars, one quarter of which must be paid in before the corporation may be authorized to begin business. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders, or by unanimous consent in writing of the shareholders without a meeting and without a formal vote;and may be reduced in like manner, provided that, in no event, shall it be less than two million dollars.

A majority of the shares of the capital stock of any such corporation shall be held and owned by citizens of the United States, by corporations chartered under the laws of the United States or of a State of the United States or by firms or companies, the controlling interest in which is owned by the citizens of the United States or of a State thereof. The provisions of section eight of the Act approved October 15, 1914, entitled "An Act to Supplement Existing Laws against unlawful Restraints and Monopolies, and for other purposes," shall not be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section.

Shareholders in any corporation organized under the provisions of this section shall not be liable for the contracts, debts and engagements of such corporation except to the extent of their unpaid stock subscriptions. Any member bank may act as agent for any corporation organized under the provisions of this section for the purpose of dealing with any Federal reserve bank and the Federal Reserve Board shall establish and promulgate rules and regulations defining and governing transactions which corporations organized hereunder may have with Federal reserve banks, either directly or through the agency of a member bank. No such corporation, however, shall become a member of any Federal reserve bank.

Should any corporation organized hereunder fail to comply with any of the provisions of the laws of the United States, all of its rights, privileges and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders or officers for any liability or penalty previously incurred.

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States; provided, however, that the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examinations whenever deemed necessary by the Federal Reserve Board by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

July 11, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

X-1577

July 12, 1919

SUBJECT: Postage on currency shipments.

Dear Sir:

The following letter was received today by the Board from Postmaster M. O. Chance of the Washington City Post Office, and in accordance with his request, we are advising all the Federal Reserve Banks:

"This office has received complaints from some of the Federal Reserve Banks on account of what they appear to think was an undercharge in the postage on shipments of currency. These banks have failed to take into consideration the fact that there was a reduction in first-class postage rates, effective July 1, from 3¢ an ounce to 2¢ an ounce. If you will be good enough to inform the various branch banks to this effect, it will eliminate unnecessary correspondence."

Very truly yours,

Assistant Secretary.

Sent to Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

July 15, 1919.
X-1618

SUBJECT: Officers and Employees of Federal Reserve Banks Authorized to Examine Member Banks.

Dear Sir:

In order to check the records of this office, please send at your earliest convenience, the information requested below.

1. Names of examiners approved by your bank and approved by the Federal Reserve Board.

2. List of other officers or employees who have been designated as special examiners with the approval of the Federal Reserve Board, and who are now authorized to examine or to assist in the examination of

   (a) Banks applying for membership

   (b) State Member Banks

   or to make special credit investigations or examinations of National or State Member Banks.

Kindly acknowledge receipt.

Very truly yours,

Assistant Secretary.

LETTER SENT TO ALL CHAIRMAN.

FEDERAL RESERVE BOARD

WASHINGTON

July 15, 1919.
X-1619

SUBJECT: List of Employees of the War Savings Organization as of August 1, 1919.

Dear Sir:

In view of the fact that the War Savings Organization is conducted under the supervision of the officers of the Federal Reserve Banks and that it is likely to become a permanent division of the Federal Reserve Banks, you are requested to submit to the Federal Reserve Board, as of August 1, 1919, a complete list of employees, giving the following data:

Date of employment
Name
Position
Present annual salary

You are also requested to advise the Board of all proposed adjustments in salaries in the same manner as outlined in the Board's circular X-1561, dated June 2, 1919.

Kindly acknowledge receipt.

Very truly yours,

Governor.

LETTER TO GOVERNORS AND COPY TO CHAIRMAN OF ALL BANKS

FEDERAL RESERVE BOARD

Statement for the Press

X-1620

July 16, 1919

For immediate release July 16,1919

The Federal Reserve Board announces the appointment of Mr. Harrison Nesbit, President of the Bank of Pittsburg, N.A. Pittsburg, Pennsylvania, as a Director of the Pittsburg Branch of the Federal Reserve Bank of Cleveland, to succeed Mr. T. Hart Given, deceased.

FEDERAL RESERVE BOARD

Confirmation of Telegram X-1622

July 17, 1919

SUBJECT: Argentine deposit account

We are advised by the Federal Reserve Bank of New York that transfer will be made through the Gold Settlement Fund covering your allotment of the Argentine Government deposit account. This allotment should be entered under liabilities, Form 34, code word CERE, account "Foreign Government Credits". Notation, however, should be made on ledger record that the account is "Due to the Federal Reserve Bank of New York, Foreign Agency Account". In the press statement issued by your bank the account should be included under the heading "Other Deposits including Foreign Government Credits".

STRAUSS, Vice-Governor.

To Governors of All Federal Reserve Banks,

FEDERAL RESERVE BOARD

WASHINGTON

July 23,1919.

X-1624

Subject: Use of Leased Wire System Facilities.

Dear Sir:

At a recent meeting of the Board attention was called to the rapidly increasing cost of operating the leased wire system. The expense of the main and branch line service at the present time is at the rate of about $20,000 per month. The Board recognizes, of course, that it is essential for the system to have adequate facilities to transmit messages promptly and accurately. It is probably a fact that comparatively few member banks are now making use of the telegraphic transfer system. A suggestion has been made that the member banks deriving the benefit should be required to make some contribution toward defraying the expense, and that a nominal charge of fifty cents for each telegraphic transfer should be made. The question has been raised as to the extent to which the wire transfer system is of benefit to customers of member banks and whether customers are charged for transfers made without cost to member banks.

An expression of opinion as to the above is requested.

The Board wishes to have full and detailed information as to the use which is being made of the present wire facilities and requests that detailed records be kept beginning August 1st.

Based upon reports made by the offices on the main line system, a record is kept by the Federal Reserve Bank of Chicago as follows:

1. Wire rental and operators' salaries.
2. Number of messages handled on each circuit.
   (Includes messages in either direction)
3. Number of messages transmitted by each office.
4. Number of words transmitted to each office
   classified as follows: Bank, Fiscal Agent,
   War Finance.

In addition to this report, which is to be made to the Federal Reserve Bank of Chicago as heretofore, you are requested to forward to the Federal Reserve Board as soon as practicable after the first of each month, a report for the previous month giving the following information:

(A) Intradistrict branch wire lines.

1. Number of messages and words transmitted by the head office to the branch offices and by branch offices to the head office and other branch offices.

2. Monthly expense - wire rental and operators' salaries; other expenses.

(B) Classification of messages handled by head offices and branch offices.

1. Federal Reserve Board. (Messages and words).

(a) Gold Settlement clearings and transfers.
(b) Daily and weekly reports of condition.
(c) All other reports and messages.

2. Treasury Department and Fiscal Agency - number of words sent to or for account of Treasury.

3. Wire transfer of funds (exclusive of Treasury transfers).

(a) Number and dollar amount of transfers by days - average for month.
(b) Subdivision showing transfers for member banks and those for account of customers of member banks.
(c) Subdivision showing amount transferred to each Federal Reserve Bank.

(d) Number of member banks making wire transfers during month.
(e) Name and location of member banks transferring $500,000 or more during month, giving total number and total amount transferred.

4. Other messages between Reserve Banks (number of messages and words).

Kindly acknowledge receipt.

Very truly yours,

Governor.

Letter to chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

July 23,1919.
X-1625

Subject: Address by Wallace D. Simmons
"Exchange of Checks at Par."

Dear Sir:

The Board has received from the Federal Reserve Bank of St. Louis a copy of an address made by Mr. Wallace D. Simmons before the Chamber of Commerce of the United States at a meeting in St. Louis on April 30th last on the subject of "Exchange of Checks at Par". The Federal Reserve Bank of St. Louis is using a booklet containing this address in its campaign for par points and is distributing it among banks and their customers in the Eighth District.

It is believed that you would be interested in this booklet, and that you might be able to use it to good advantage in your own district. If you have not already seen it, it is suggested that you write the Federal Reserve Bank of St. Louis for a copy.

Very truly yours,

Governor.

Letter to all chairmen of Federal Reserve Banks
except St. Louis

FEDERAL RESERVE BOARD

Office Correspondence.

July 24,1919.

X-1626

Subject: Leased Wire Telegrams.

To the Staff, Federal Reserve Board:

Your attention is directed to the Report of the Governors of the Federal Reserve Banks covering recommendations for improvement in service of the Federal Reserve Leased Wire System, with particular reference to paragraphs (c) and (d), quoted below:

(c) The custom of using the words 'quote,' 'stop,' 'period,' etc., should be discontinued through the use of ordinary punctuation in preparing copy, for which symbols are understood by all operators.

(d) Brevity should be observed in wording telegrams, and in no case should the wire be used when the mails would serve the same purpose. Each office should arrange for a careful censorship of all messages sent, with a view of eliminating unimportant telegrams and unnecessary words.

In sending messages, punctuation should be used exactly as in letters. If the words 'stop', 'quote', 'period', etc., are used, it is necessary for the operator to spell out these words, whereas the symbols covering punctuation require very much less time.

Paragraph (d) is self-explanatory.

Your cooperation is requested.

Yours truly,

Assistant Secretary.

EX OFFICIO MEMBERS

CARTER GLASS
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

July 24, 1919.
X-1628

Subject: Code Messages to be used in Rediscount Transactions between Federal Reserve Banks.

Dear Sir:

Referring to the Board's letter of July 10 (X-1613) on the above subject, there are given below two additional code words to be used in rediscount messages between Federal Reserve Banks, effective August 1, 1919.

To be sent by rediscounting bank to discounting bank in new transactions:

REAPER: In accordance with your wire (June 1st) we have delivered to the Federal Reserve Agent of this Bank to be held in trust for the Federal Reserve Agent of your Bank for the account of your Bank ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days. Please make special transfer of ($5,000,000) (June 1st) through Gold Settlement Fund. We credit your account ($3,287.67) discount at (4%) for (10) days on ($3,000,000) secured by certificates of indebtedness and ($2,328.77) discount at (4¼%) for (10) days on ($2,000,000) secured by Liberty bonds and Victory notes. Total credit for discount ($5,616.44). Schedule of bills pledged with our Agent being mailed.

To be sent by rediscounting bank to discounting bank in renewal transactions:

RECAST: In accordance with your wire of (June 1st) we have delivered to the Federal Reserve Agent of this Bank to be held in trust for the Federal Reserve Agent of your Bank for the account of your Bank ($5,000,000) member bank promissory notes secured by Government obligations maturing (11 to 15) days. We have received from the Federal Reserve Agent of this Bank paper lodged with him (10) days ago in equivalent amount. We are paying you for today's maturities through the Gold Settlement Fund by direct transfer today and request that you make direct transfer to us of ($5,000,000) covering new transaction. We credit your account

($3,287.67) discount at (4%) for (10) days on ($3,000,000) secured by certificates of indebtedness and ($2,328.77) discount at ($4\frac{1}{4}$) for (10) days on ($2,000,000) secured by Liberty bonds and Victory notes. Total credit for discount ($5,616.44). Schedule of bille pledged with our Agent being mailed.

Very truly yours,

Assistant Secretary.

Letter to Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

July 29, 1919.

X-1630

(NOT FOR PUBLICATION)

SUBJECT: Charges by Member Banks on Checks deposited with them, and correction of present discrimination against Member Bank Checks.

Dear Sir:

There are now nearly twenty-one thousand banks on the par lists of the Federal Reserve Banks, and the number is gradually growing. Frequent complaints, however, have been made to the Board that drawers of checks on member banks and on non-member banks which are on the par list are being advised by those to whom they remit checks that charges are being imposed by banks with which these checks are deposited considerably in excess of a reasonable allowance for interest for time in transit, and that checks on banks which are not on the par list, collection of which involves a substantial charge, - in some cases as high as one-quarter of one per cent. - are received on deposit on exactly the same terms as checks on member banks. This is in effect a discrimination against checks drawn upon member banks and upon other banks on the par list.

At some of the Federal Reserve Banks arrangements have been made with certain member banks by which checks on those banks are taken for immediate credit, being charged directly to the account of the member bank on receipt at the Federal Reserve Bank, and credited subject to final payment. Member banks making this arrangement carry an excess balance over reserve requirements with the Federal Reserve Bank. The Board feels that this privilege should be extended to all member banks desiring to make such an arrangement.

It is suggested that the Transit Managers of all Federal Reserve Banks meet with the Board at Washington on Monday, August 18th, for the purpose of working out a practical method of according these facilities and of determining the charges that may be made by member banks against out-of-town checks deposited with them which are in turn collected through the Federal Reserve Bank. Section 16 of the Federal Reserve Act provides that "the Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its (sic) patrons whose checks are cleared through the Federal Reserve Bank." The Board construes this clause as above indicated. Realizing that cooperation on the part of member banks and their depositors is necessary to enable the Federal Reserve Banks to forward transit items expeditiously, the Board has decided that any rule made by it will apply only to such checks as have stamped or printed plainly upon their face a symbol indicating, (1) that the check will be given immediate credit subject to payment on its receipt at the Federal Reserve Bank or proper branch bank of the district in which the drawee bank is located, or (2) that the check is collectible at par through the Federal Reserve Bank. The Board has determined upon a system of transit numbers for use in this connection, and in the case of a member bank located elsewhere than in a Federal Reserve or branch bank city wishing to arrange for immediate credit on receipt at the Federal Reserve Bank of checks drawn upon it, subject to payment, the symbol shall be:

I. C.
1

This would indicate to all transit clerks that the check is drawn on some bank in the Boston district, and that it is subject to immediate credit on receipt at the Federal Reserve Bank of Boston. In the case of member banks and banks whose names appear on the par list, the symbol will be

F. R.
7

which would indicate that it is drawn on a bank in the Chicago district, and that it is collectible at par, subject to the proper time allowance, through the Federal Reserve Bank of Chicago. In the case of branches, the letters A, B, C, etc., will be added to the district number.

It is the purpose of the Board to have these symbols copyrighted and to arrange with each Federal Reserve Bank to allow the use of either or both of these symbols to such member banks as may desire to make the necessary arrangements, and to permit the use of the second symbol by all banks on the par list, whether members or non-members.

When the Board rules on the charges that member banks may impose on checks deposited with them, a schedule will be furnished applicable in all districts alike, and interest for time in transit will be computed as far as possible at not exceeding 6% per annum, although the rates must, of course, be in round percentages to admit of ready computation.

It is proposed that member banks be notified that upon the date the plan becomes effective the Federal Reserve Banks will receive from them free of service charge only such checks as have the second symbol imprinted or stamped upon them, the right being reserved to impose a service charge upon all other checks. Member banks can in turn notify their depositors that the minimum rates will apply only to checks so imprinted or stamped, and that all other checks even though drawn upon member banks are subject to a higher charge at the discretion of the member bank with which the checks are deposited. It is to be expected that banks will charge at least cost on checks subject to a so-called exchange charge, and which cannot be collected through a Federal Reserve Bank.

The Board believes that it will be practicable to work out a schedule of charges which may be imposed by banks on checks deposited with them bearing the Federal Reserve collection symbol, with one-tenth of one per cent. as a maximum, and in case of checks involving a shorter time in transit that the charge may be fixed at one-twentieth, and in some cases one-fortieth, of one per cent. Ample notice, of course, will be given of these proposed changes after thay have been definitely determined upon, in order that the banks and the public may thoroughly understand them and may have ample time to prepare for them.

It is believed that the effect of this plan when put into operation will be to create a demand on the part of depositors for checks bearing the symbol

F. R.
7

(or the transit number of any other Federal Reserve Bank or branch) and that many banks which are not now on the par list will feel obliged to meet the wishes of their customers to have this facility extended, the result being constant and substantial additions to the par lists.

An acknowledgement of this letter is requested.

Very truly yours,

Governor.

Letter to all Governors - copy to each F.R. Agent.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

To be released Friday Afternoon
August 1, 1919.

During the month of July confidence in the continuation of business activity has been maintained and a further expansion in many lines of industry has been noted. The volume of trade, both wholesale and retail, has continued to grow, and there has been increased activity in some of the basic industries. Complaints are heard, however, in different fields in which activity is most pronounced of a shortage of raw materials, and labor troubles have been much in evidence in several districts, although the majority of the districts report labor conditions as entirely normal. Instead of the fear of unemployment which had been expressed during the early part of the year, the reports received manifest the reverse feeling, namely, the fear of an impending shortage of labor. The agricultural outlook on the whole is favorable, although indications point to a much shorter cotton crop than forecast earlier in the summer, The large volume of speculation which occurred during the month of June, after a slight recession toward the close of that month, has again resumed its upward course and both industrial and railroad shares attained higher price levels. On the whole, the general industrial situation is favorable, and prospects are bright for continued business activity in leading lines.

It is stated in District No. 1 that "there is apparently no abatement in the general industrial activity in the New England District. The raw material market and the labor unrest have made the problem which our manufacturers face increasingly difficult". In District No. 2 "commercial activity which commonly reaches its climax in May has been continued into the early summer," and a generally favorable outlook is noted. In District No. 3

"the general business situation contines to show an increasing demand for merchandise at advancing prices, and fundamental industries operating on a larger scale," but the abnormally high prices prevailing are viewed with disquietude. In District No. 4 the continued optimistic view is based upon favorable conditions prevailing in the steel industry and in agriculture, although the present high price level remains a disturbing element. From District No. 5 it is reported that "the rising tide of activity continues in all lines and confidence in the general stability of business may be regarded as reestablished." Reports from all parts of District No. 6 indicate "practically all lines of business increasingly active," although it is stated that the agricultural outlook, especially as regards cotton, is not as encouraging as a month ago. In District No. 7, while merchandising and manufacturing are active, there has developed "a rather decided feeling of labor unrest, especially in Chicago." In District No. 8 the business situation continues excellent; "wholesalers and retailers in most lines are doing an active, in some cases a record, business. There are complaints of difficulty in obtaining raw materials and skilled labor." The whole situation in District No. 9 is summed up as "good, although there are some discouraging spots in the district." In District No. 10 "the business and industrial activity" which prevailed in the month of June is extending through July and there is no indication of a slowing down of this activity for many weeks or months to come. In District No. 11 there has been "practically no summer dullness in trade and financial circles this year; this unusual condition being attributable largely to the petroleum industry, which has exerted a very favorable influence on trade." In District No. 12 July estimates of agricultural production are slightly below June figures, while "industrial activity is increasing."

No recession in commodity prices from the high price levels which had been reached the previous month is noted, but instead further increases in many lines have occurred. In many districts the high prices now prevailing have not served to check demand, but the possibility of obtaining goods seems to be of greater moment to the buyer than the price fixed. On the other hand, the very great price increases which have taken place in certain lines have made buyers more cautious, care being taken not to unduly increase stocks acquired at the present price level for fear that a decline in prices should occur. In general, however, there is a disposition to accept present price levels and to expect a continuation of the prevailing level for some time to come. The general index of the Bureau of Labor Statistics stands at 206 for the month of June, as compared with 207 for the month of May. The index number for the group of producers' goods has increased from 189 to 197, while decreases are shown in both the index numbers for the groups of consumers' goods and of raw materials, from 215 to 212 and from 203 to 201. Among the subgroups included under the head of raw materials, the index number for farm products has decreased from 254 to 251, and for animal products from 223 to 213, while the index number for forest products shows an increase from 146 to 154 and for mineral products from 169 to 170.

The agricultural outlook, on the whole, continues promising. There has been further decrease in the earlier estimates of the wheat crop, but the condition of corn has improved. While the prospects for wheat in Montana and western North and South Dakota are "discouraging", east of the Missouri River conditions are reported to be "just the reverse". In District No. 10 "the condition of corn is still above normal" and great improvement has been made since the earlier estimates, although the acreage has been decreased from last year. Wheat prices are slightly above the guaranteed minimum. In District No. 7 corn is reported in good condition, but a decreased yield of wheat is indicated, due both to rust and adverse weather conditions. Corn in district No. 6 has suffered from an excess of rain, but in Texas "the yield of small grains promises to be the largest in the history of the district." On the Pacific coast unfavorable weather has adversely affected the previous estimated for wheat and barley, although oats are in good condition throughout the section. From certain districts it is reported that wheat which has been harvested shows an unusually low yield per acre, due to the lack of matured grain.

An increased acreage of tobacco is reported both in Kentucky and elsewhere, and the outlook is promising. Fruit crops on the Pacific coast are reported in good condition. Cotton acreage is smaller than last year and the yield which had promised to be extremely favorable now appears to be below normal. Throughout the cotton belt the crop has been damaged by rains, and the boll weevil is reported active. A lack of labor is also remarked and considerable acreage has been abandoned. This decreased output is, however, offset from the point of view of the grower by the material advance in the price of cotton which has occurred, due to the fact that both domestic and foreign consumers to a large extent "have subordinated the cost of the raw material to the question of getting it". It is reported from the Kansas City District that interest is being manifested in flour made from the new crop, and good business is expected, although purchasing is somewhat delayed. Flour production during June, as reported by the United States Grain Corporation, was 7,130,000 barrels, as compared with 10,738,000 barrels during May.

Receipts of cattle during June have decreased from the May figures, being 1,122,782 head, as compared with 1,262,065 during May and 1,292,505 during June, 1918, the respective index numbers being 111,125, and 128. Receipts of hogs continue about stable, being 3,061,838 during June, as compared with 3,049,223 during May, and 2,369,501 during June, 1918, the respective index numbers being 139,139, and 108. Receipts of sheep show a considerable increase, being 1,116,003 during June, corresponding to an index number of 82, as compared with 934,613, corresponding to an index number of 68, during May, and 889,040, corresponding to an index number of 65, during June 1918. While the price of cattle has continued to decline, the price of hogs has moved steadily upward. It is reported from the Kansas City District that the price of hogs has increased each month this year at the six principal markets in the district, the price on July 14 being $22.45, or $5.20 per hundred-weight higher than a year ago.

In iron and steel it is felt that the tide has now definitely turned. The well-known indices in the industry all point to better conditions. Pig-iron production has increased from 2,108,056 tons during May to 2,114,863 tons during June, the index number for each month being 91. Steel ingot production has increased from 1,929,024 tons during May, corresponding to an index number of 80, to 2,219,219 tons during June, corresponding to an index number of 92, while the unfilled orders of the United States Steel Corporation at the close of June were 4,892,855 tons, as compared with 4,282,310 tons at the close of May, the respective index numbers being 93 and 81. The steel industry is now reported to be operating at from 70 to 75 per cent of capacity. Reports from the Pittsburgh District show that conditions are improving steadily and "it is an assured fact that a distinct gain has been made." In the Birmingham District it is reported that "inquiries are brisk in the pig-iron market."

Prices appear to have been stabilized, some inconspicuous concessions being reported only in plates and sheets, although it is stated that the independent producers favor increased prices. The chief activity is in lapweld tubes, due to the increased oil and gas field operations, sheets, wire, bars, and tin plates. On the other hand, some of the heavier lines are still lagging, plates, rails, and shapes in particular, due to small railroad purchases and absence of demand from shipyards. Demands from automobile and agricultural implement manufacturers are stated to be heavy, while increased bookings of structural steel are reported with the expansion in the building trade. Pig-iron sales in June in the Pittsburgh District were the heaviest since the armistice. An increase in the export demand is noted, Japan being in the market for considerable quantities of rails and ship plates. Attention is being given in the Pittsburgh District to a possible shortage of labor, due to continued heavy emigration of foreign-born workers.

Some improvement in the fuel situation is noted. Production of bituminous coal during June was 36,806,000 tons, as compared with 37,547,000 tons in May, the respective index numbers being 99 and 101. While figures for both months show an increase over the April figures, they are still substantially below the output a year ago, the figure for June, 1918, having been 57,757,224 tons, corresponding to an index number of 140. Warnings have been issued of an impending coal shortage for quite some time, and consumers are being urged to "buy now!" Several reasons have been assigned for the shortage. It is believed that the emigration of foreign-born workers will continue, and added thereto is the possibility of a car shortage. On the other hand, an increased export demand is looked for, due to the expected shortage of coal production in England and some of the other European countries. It is reported from District No. 3 that "bituminous and anthracite coal have both been in much larger demand during the past month than for some time heretofore" and that "high grade bituminous coal is very difficult to secure." Prices of both bituminous and anthracite coal have risen to levels beyond the older prices of the United States Fuel Administration. Anthracite coal production during June was slightly less than during May, being 5,619,519 tons, as compared with 5,711,915 tons, the respective index numbers being 100 and 101. The output of beehive coke increased slightly from 1,135,840 tons during May to 1,170,752 tons during June. Greater activity is anticipated for the second half year, and increases in the prices of certain grades are noted.

The copper market has continued to improve, prices moving steadily upward, although it is stated that sales of copper by American producers during June were not quite so large as during May. The greater part of the Government surplus which had threatened to be a drag on the market for many months has, however, been disposed of. Several large deals have been reported in the Tenth Federal

Reserve District, involving extensive silver-producing properties, which should result in an increased production of that metal in a few months; also that from now on greater productive activity is anticipated on the basis of present prices. Zinc ores in the Joplin market rose appreciably in price during the month of June, due, it is reported, in part to diminished output and increasing demand, also to the fact that the surplus stock in the districts is held in strong hands. Lead ores have likewise shown a decided improvement in price. A shortage of production in the Joplin district is reported, due to the large number of miners working in the harvest at high wages which farmers offer.

Manufacturing continues active. From New England it is reported that the demand for cotton goods is extremely heavy, especially for the fancy lines, and marked advances in price have occurred. Many mills are oversold and are declining future business, owing to uncertainty regarding sufficient supply of long staple cotton, also because of the shortage of skilled labor. Export orders are reported to be large. Many foreign customers have been unable to obtain merchandise because manufacturers have been obliged to allocate their shipments in an effort to meet present requirements. From Philadelphia it is reported that activity in the cotton-yarn market is increasing and that prices are constantly rising.

Raw wool continues in very strong demand, especially fine wools. Relief from present high prices is not expected until the transportation situation is such as to render foreign stocks available. The western clip has been selling much earlier than usual, and prices have been very high. A strong demand exists for fine worsted yarns, and price increases are noted. Woolen mills in District No. 1 are operating to capacity. Manufacturers of men's wear goods are largely oversold for the heavy-weight season, and the light weight season is correspondingly shortened, some mills showing no goods for that season. Heavy sales of underwear at increased prices are reported, and manufacturers of high-grade hosiery are largely sold up, although the interest in low-end hosiery is still relatively small. Prices of raw silk continue to rise and large sales of finished goods are noted.

The demand for leather continues to increase and prices likewise move upward. With the removal of foreign import restrictions an increased export is anticipated. Prices of hides have continued to rise, the prices for some classes at Chicago on July 11 being almost double those prevailing in the beginning of April. Shoe manufacturers in New England are producing at capacity, and sales exceed those of the same period last year. Factories in District No. 3 are being offered more business than can be handled. In certain sections it is reported that there is not the usual summer lull in production. Opinion prevails in certain quarters that shoes for next season will be sold at a considerable advance over present prices.

Automobile production continues in many plants at high levels, although it is stated in District No. 4 that "comparatively few firms have reached their prewar basis" of production. The hardware and furniture industries are reported to be active. Meltings of refined sugar are considerably in excess of receipts of raw sugar, and exports of refined sugar has been discontinued in order to remedy local shortages which have developed at several places.

Retail trade has continued active in spite of present high prices, and one of the principal complaints of merchants is their inability to obtain goods from jobbers and manufacturers. Demand for the better grades of merchandise continues. In District No. 11, however, "it is fully expected in some quarters that the individual consumer will not buy freely this fall until the prospect of price reduction is settled one way or another. It has firmly become a conviction that prices must come down." In District No. 7 the labor unrest prevailing is declared "to be an outcropping of the effect of the continued high cost of living."

The revival in building has continued. Expectation of lower costs, both for materials and for labor, has disappeared and builders are looking to higher rents to make up for the increased costs. In several distrits a shortage of labor is faced. Considerable advances have occurred in the prices of various classes of lumber as the heavy demand has continued. Shipments exceed production in many sections, and stocks are consequently decreasing. An increase in the demand for paint and varnish is also noted. In several districts permits issued in June are less in number and value than for May, but this is a customary seasonal phenomenon and actual construction is increasing. In New England, while building has increased considerably for the first six months of the year, the increase in construction apparently has not equaled that reported for other sections. In New York the supply of buildings is far short of requirements. In Chicago the building industry has been hampered during the present month by labor troubles. In the Kansas City District efforts to meet the housing demands have barely started, although great activity is reported in the construction of commercial, school and public buildings. In the Southwest there is "still plenty of room for improvement." Considerable sales of city real estate and of farm lands are reported in various districts and prices have advanced, in some sections reaching the highest point ever recorded.

The unemployment specter which threatened several months ago has disappeared. Instead there are now indications of demand outrunning supply in certain sections and for certain classes of labor. Farm hands are reported to be scarce in several districts, although a surplus is indicated in Minneapolis. A scarcity of unskilled labor threatens in the building trades and in the steel and coal industries, due in considerable measure to the exodus of foreign-born workers. It is expected that 35,000 will have departed from Cleveland alone before the close of the year. A shortage of skilled labor is also noted in some districts. Wages in certain lines continue to advance and a considerable number of labor disputes are reported centering upon this issue. In Chicago "a rather pronounced feeling of labor unrest" has developed, involving both skilled and unskilled labor. Strikes have occurred in some of the largest plants in the city, and the traction employees have demanded an increase in wages. The demands of the carpenters' union resulted in a lock-out operative July 18, which affected directly and indirectly upward of 100,000 men, and demands for increased pay have also been presented by miners in the Indiana coal fields. "Eastern Massachusetts has probably been more affected by unsettled labor conditions than at any previous time". In New York the chief difficulty was the recently settled seamen's strike, which threatened a complete tie-up of all coastwise shipping, also to extend to the trans-Atlantic trade. In other sections the labor situation is reported as fairly satisfactory.

Official figures for the month of June show an export balance of $625,000,000, as compared with $277,000,000 for the month of May. Export trade in many lines is reported to be increasing and keen interest is displayed by small as well as by large houses. The recently demonstrated ability of American steel manufacturers to compete successfully for several foreign contracts has afforded much encouragement. The removal of restrictions by the

War Trade Board, as well as by several of the principal European countries, will pave the way for a return to normal conditions. In certain lines, such as machinery and tools, foreign orders have served to tide over a period in which there has been lack of domestic demand, while in others, notably cotton goods, inability to supply current domestic needs has resulted in some cases in a refusal of foreign orders. Improvement in the shipping situation continues, although it appeared at one time that the seamen's strike at New York might seriously hamper foreign trade expansion. The shipping factor is of importance also in connection with the shortage of raw materials in certain lines, notably hides and wool, and efforts are being made through the allocation of shipping to remedy the situation as far as possible.

After a temporary relaxation late in June, speculation has again continued at an unprecedently high level, both in New York and elsewhere. An investment demand, however, has revealed itself and an unusual amount of stocks is reported to have been taken from the market, the consequent decrease in supply resulting in further increase in prices in the face of continued demand. Call money has continued to fluctuate greatly and has been quoted as high as 20% on mixed collateral, the highest rates for such loans since November, 1912. The Board's figures of the volume of check transactions continue at the high level noted for the month of June. Interest rates are reported firm in practically all centers. Acceptances continue in light demand, the portfolios of dealers in New York increasing. Several instances of plans for the use of acceptances in moving certain crops are, however, reported. In Cleveland it is noted that "smaller country banks are beginning to buy bank acceptances as an investment for temporary funds. In the middle of July rates for sterling, francs, and lire broke sharply, sterling being quoted on July 17 at 4.2575. Bankers are watching the situation with interest. The banking situation continues to be regarded as sound, credit and collection conditions are very good, and failures continue to be unprecedentedly small and few.

X-1632

STATEMENT FOR THE PRESS

FEDERAL RESERVE BOARD

For immediate release,
Wednesday July 30,1919.

The Federal Reserve Board made the following announcement today:

The Board feels that it has already made clear its position regarding the call loan market and has nothing further to say on the subject at the present time.

FEDERAL RESERVE BOARD

WASHINGTON

August 1,1919.

X-1635

Subject: Use of Leased Wire System Facilities.

Dear Sir:

In its letter to you on the above subject, under date of July 23, 1919, (X-1624), the Board requested an expression of your opinion as to whether or not a charge of fifty cents per message should be imposed upon member banks deriving the benefit of free telegraphic transfers.

In view of the fact that the expressions of opinion received by the Board are unanimously in opposition to the imposition of such a charge, the Board has decided to withdraw the suggestion.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

CONFIRMATION OF TELEGRAM

August 1,1919.

X-1636

Subject: Participation by Houston Branch in
Daily Gold Fund Clearing.

Morss - Boston
Treman - New York
Passmore - Philadelphia
Fancher - Cleveland
Peple - Richmond
Wellborn - Atlanta
McDougal - Chicago
Biggs - St.Louis
Wold - Minneapolis
Miller - Kansas City
Calkins - San Francisco

Houston Branch of Dallas will open for business August 4th and will commence settling direct with other Federal Reserve Banks and direct settling branches through the Gold Fund Clearing effective statements August 2nd clearing August 4th. Dallas requests that all items maturing August 3rd and thereafter drawn on banks in Houston district be included in cash letters direct to Houston. All return items should be handled in accordance with letter in which item was originally enclosed. Board's letter of procedure mailed today. Please advise branches and acknowledge receipt by wire.

FEDERAL RESERVE BOARD

WASHINGTON

CONFIRMATION OF TELEGRAM

August 1,1919.

X-1638

Subject: Use of Symbol - Gold Fund Clearing Telegrams.

Morss - Boston	Peple - Richmond	Wold - Minneapolis
Treman - New York	Wellborn - Atlanta	Miller - Kansas City
Passmore - Philadelphia	McDougal - Chicago	Van Zandt - Dallas
Fancher - Cleveland	Biggs - St.Louis	Calkins - San Francisco

With further reference to Board's wire today re participation of Houston branch in daily gold fund clearing will you please issue instructions to your telegraph operators beginning August 4th to use symbol KB immediately following symbol KA instead of the name of the branch when sending your daily LABEG wire. The Board's operators will use the same symbol when sending BEPEG wires to the banks. Please advise branches.

FEDERAL RESERVE BOARD

WASHINGTON

NOT FOR PUBLICATION

August 2,1919.

X-1639

SUBJECT: Automatic Routing of Checks with Indicated Time Allowance.

Dear Sir:-

As explained in circular letter (x-1630) of July 29, 1919, the Board has determined to discharge the duty imposed upon it by Section 16 of the Act to fix the charges which may be collected by the member banks upon checks deposited with them which are cleared through the Federal Reserve Banks, and the charge which may be imposed for the clearing or collection services rendered by the Federal Reserve Banks. No hasty action will be taken and ample notice will be given in order that the banks and the public may accommodate themselves to the change without inconvenience.

The schedule of charges will not be determined by the Board until after the conference with Transit Managers on August 18th, which conference is, of course, open to any of the senior officers of any of the Federal Reserve Banks who may care to attend. The schedule to be fixed will regulate the maximum charges, and no member bank will be required to impose a charge if it prefers not to do so. It is the desire of the Board to simplify present operations, and in order to bring this about it will be necessary to have the cooperation of the member banks and the public, and therefore the Board will not for the present undertake to place any limitation upon charges which may be made against checks drawn upon member banks and banks on the par list the routing of which is not clearly indicated on the face of the checks, and the Board has no authority to regulate the charges which may be made against checks which are not collected through the Federal Reserve Banks.

It is the desire of the Board to bring about a very general use of the Federal Reserve collection symbol, which, as has already been explained, will be a circle enclosing the letters F.R. and the numeral indicative of the district number of the Federal Reserve Bank. Branch banks will be indicated by the addition to the numeral of the letter A, B, C, or D, according to the seniority or order of establishment, of branches in a given district; for example, the symbol

F. R.
3

should be imprinted or stamped upon all checks drawn upon banks in the Philadelphia district, and the symbol F. R. 4A should be imprinted upon all checks of banks in the collection zone of the Cincinnati Branch of the Federal Reserve Bank of Cleveland.

The Board is considering the establishment of a fixed rate of one and one-half cents per one hundred dollars per day which member banks may charge upon properly indicated checks. This is equivalent to a rate of five and four-tenths per cent. per annum, which rate is slightly in excess of the Federal Reserve Banks' ninety day rate on rediscounts.

It is important that every depositor of a member bank and the member banks themselves should be able to determine readily, without reference to a cumbersome par list, the time in transit of every check. Every member bank is, of course, aware of the transit time between its home town and the Federal Reserve Bank or branch of its district, and a table should be prepared by each Federal Reserve Bank giving the transit time between the head office and each of the branches in the district to every other Federal Reserve Bank and branch. This could be printed on a small card which could be widely distributed. Then there must be considered the time in transit from a Federal Reserve Bank or branch receiving checks on its district for collection to the banks upon which the checks are drawn. This can readily be indicated by the addition of a dash and the number 1, 2, or 3, after the numeral which represents the district number of a Federal Reserve Bank, thus the symbol

F. R.
9-2

should be printed upon all checks drawn upon banks in the Minneapolis district which involve a two day time allowance between Minneapolis and the town in which the drawee bank is located. Checks drawn on banks in the collection zone of the Denver Branch of the Federal Reserve Bank of Kansas City (which was the second branch established in that district) and subject to a one day time allowance out of Denver, would bear upon their face the symbol

F. R.
10B-1

In printing the symbol, the figure representing the time allowance should be printed in distinctly smaller type than the figure which indicates the district number of the Federal Reserve Bank.

In case your bank is contemplating any readjustments of time allowances to towns in your district, the Board requests that you make these changes during the month of August, as it is hoped to begin the operation of the new plan about the first of September.

In actual practice a member bank in figuring time allowance would include (1) time to the Federal Reserve Bank or branch to which it is assigned, (2) time between the Federal Reserve Bank or branch of its district and the Federal Reserve Bank or branch of the district to which the check is sent, and (3) time between that Federal Reserve Bank or branch and the bank upon which the check is drawn.

The Board intends, after all details have been carefully worked out and public announcement made of the new system, to bring the symbols to the attention of bank printers and stationers throughout the country with the view of having the symbols printed upon new orders for checks.

The Board believes that it would be a great convenience to the Federal Reserve Banks if all checks received by them should be self-routing in the manner above indicated, and in order to insure the fullest cooperation it will probably be necessary in the course of a few months to restore the service charge, which was abandoned several months ago, with respect to all checks which have not the Federal Reserve collection symbol imprinted or stamped upon them. This will force a discrimination in favor of checks so indicated, and will, in the opinion of the Board, result in pressure from depositors upon banks which have so far declined to have their names placed upon the par list.

While the Board has determined that it must carry out the provisions of Section 16 above referred to, it will be glad to receive any suggestions, criticisms or comments which you may desire to make regarding this plan, and it would appreciate your views as to the maximum charge which member banks may be permitted to make on checks deposited with them which are collected through the Federal Reserve Banks.

Very truly yours,

Governor.

Letter to all Governors and copy to Federal Reserve Agents.

FORM OF SPECIAL DEPOSIT SLIP

List on this sheet only checks bearing Federal Reserve Collection Symbol.

DEPOSITED WITH
First National Bank
of Checktown

September 15, 1919.

By Jones, Brown & Company

Transit Time, Days	Detail List	Totals	Charges 1½¢ per day per $100
1	29.60		
	54.80		
	124.90		
	327.60		
	842.50		
	762.90	2,142.30	.32
2	72.21		
	5.00		
	10.00		
	962.00		
	28.10		
	11.42		
	768.09	1,856.82	.55
3	2.19		
	7.14		
	21.40		
	328.60		
	76.80	436.13	.26
4	96.10		
	24.70		
	225.10	345.90	.21
		4,781.15	1.28
		1.28	
Total		4,779.87	

Note: It is not intended to complicate the work of the member banks and no rule will be fixed for any checks unless the depositor cooperates by doing his part in itemizing his checks on a special deposit slip. The Board will merely afford depositors a means of securing minimum charges.

Assuming that the ordinary charge on the above deposit would be 1/10th or $4.78, it is for the depositor to decide whether the additional time and labor in filling out the special deposit slip is worth the difference of $3.50.

FEDERAL RESERVE BOARD

WASHINGTON

August 1, 1919.
X-1640

SUBJECT: Gold Settlement Clearing Houston Branch
Federal Reserve Bank of Dallas.

Dear Sir:

The Federal Reserve Bank of Dallas requests that arrangements be made to have Houston Branch commence settling direct through the Gold Settlement Fund with other Federal Reserve Banks and Branches in the same manner as now in effect between Federal Reserve Banks and Branches and Dallas head office and El Paso.

Accordingly, beginning August 4th and every settlement day thereafter, the Houston Branch in addition to Dallas head office and El Paso Branch will telegraph to the Federal Reserve Board, code LABEG, its credits for other Federal Reserve Banks and direct settling branches as at close of business previous day to be settled through the daily gold fund clearing. The Board will include in the daily BEPEG telegram to other Federal Reserve Banks and direct settling branches the credits of Houston as well as Dallas and El Paso as follows:

Dallas	amount
El Paso	amount
Houston	amount

and the Houston Branch will render to each Federal Reserve Bank and Branch settling direct through the gold clearing daily mail transcripts supporting credits as settled through the fund.

The Federal Reserve Bank of Dallas requests that all items maturing August 3rd and thereafter drawn on banks in Houston district be included in cash letters direct to Houston. All return items should be handled in accordance with letter in which item was originally enclosed. The Federal Reserve Banks and those Branches settling direct through the gold fund are requested therefore to open an account with Houston Branch at such time as will permit credits therein becoming available August 3rd and thereafter; and to wire to the Board, code LABEG, the amount of such credits for the August 4th gold fund clearing and for each daily clearing thereafter. They will also render to the Houston Branch daily mail transcripts supporting credits thus settled through the gold fund clearing.

Please note that new system is effective statements as of close of business August 2nd, clearing August 4th.

Kindly advise your branches and acknowledge receipt of this letter.

Very truly yours,

Acting Assistant Secretary.

LETTER SENT TO ALL GOVERNORS.

FEDERAL RESERVE BOARD X-1641

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 Resdrve 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, collateraled 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 absense 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.

FEDERAL RESERVE BOARD

WASHINGTON

August 4, 1919.
X-1642

Subject: Schedule of Time Allowances for Checks in
Transit between Federal Reserve Banks and Branches.

Dear Sir:

There is enclosed a form showing transit numbers of all Federal Reserve Bank and branch cities with space for time allowances in days for checks in transit between any Federal Reserve Bank or branch. You are requested to bring this form to the attention of your Transit Department and to instruct your representative at the transit conference to be held on August 18th as to your wishes as to the time to be allowed. In the opinion of the Board this time should be sufficient to cover all reasonable contingencies, for it is evident that an under estimate of time will result in a large addition to the float which must be carried by the Federal Reserve Banks.

Very truly yours,

Governor.

LETTER SENT TO GOVERNORS AND AGENTS.

Enclosure.

X-1642 a

TIME ALLOWANCE

For checks in Transit from

Federal Reserve Bank (or Branch)

of________________

to

Federal Reserve Bank of	(Transit No.)	(Days)
Boston	1	
New York	2	
Buffalo Br.	2A	
Philadelphia	3	
Cleveland	4	
Cincinnati Br.	4A	
Pittsburgh Br.	4B	
Richmond	5	
Baltimore Br.	5A	
Atlanta	6	
New Orleans Br.	6A	
Birmingham Br.	6B	
Jacksonville Br.	6C	
Chicago	7	
Detroit Br.	7A	
St.Louis	8	
Louisville Br.	8A	
Memphis Br.	8B	
Little Rock Br.	8C	
Minneapolis	9	
Helena Br.	9A	
Kansas City	10	
Omaha Br.	10A	
Denver Br.	10B	
Dallas	11	
El Paso Br.	11A	
Houston Br.	11B	
San Francisco	12	
Portland Br.	12A	
Seattle Br.	12B	
Spokane Br.	12C	
Salt Lake City Br.	12D	

X-1643

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

To be released for morning papers,
August 7, 1919.

The Federal Reserve Board announces the resignation, effective September 1st, of Mr. J. A. Broderick, who has been Chief of the Division of Audit and Examination since the organization of the Board in 1914, and who has, since September 1, 1918, been Secretary of the Federal Reserve Board. Mr. Broderick resigns in order to become a Vice President of the National Bank of Commerce in New York.

The Board has no announcement to make as yet as to Mr. Broderick's successor. Mr. W. T. Chapman, Assistant Secretary, will be Acting Secretary pending further action by the Board.

FEDERAL RESERVE BOARD

WASHINGTON

CONFIRMATION OF TELEGRAM

August 6,1919.

X-1644

Curtiss - Boston	Hardy - Richmond	Rich - Minneapolis
Jay - New York	McCord - Atlanta	Ramsay - Kansas City
Austin - Philadelphia	Heath - Chicago	Ramsey - Dallas
Wills - Cleveland	Martin - St.Louis	Perrin - San Francisco

Board is releasing for publication in papers tomorrow morning August 7th following announcement which it is suggested you make public at same time in your district. "The Federal Reserve Board announces the resignation, effective September 1st, of Mr. J.A. Broderick, who has been Chief of the Division of Audit and Examination since the organization of the Board in 1914, and who has, since September 1, 1918, been Secretary of the Federal Reserve Board. Mr. Broderick resigns in order to become a Vice President of the National Bank of Commerce in New York. The Board has no announcement to make as yet as to Mr. Broderick's successor. Mr. W.T. Chapman, Assistant Secretary, will be Acting Secretary pending further action by the Board."

CHAPMAN.

FEDERAL RESERVE BOARD

WASHINGTON

August 7,1919.

X-1645

Subject: Additional Code Word for use in Discount Rate Telegrams.

Dear Sir:

Referring to the Board's letter of December 14, 1918, X-1307, subject - "Rates of Discount", the following code word is suggested for use in telegrams to the Board when reporting recommendation of no change in discount rates for the ensuing week:

CODE WORD:

DIAL.......Referring to Board's letter X-1307, December 14, 1918, no change in discount rates is recommended for this bank for the week ending ____(date)____.

Very truly yours,

Acting Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

August 8, 1919.
X-1647

SUBJECT: Campaign for New Par Points.

Dear Sir:

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of July 29th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

In addition there is also enclosed a special report showing nonmember banks not on par list distributed by States according to Federal Reserve Districts.

Very truly yours,

Acting Assistant Secretary.

Enclosures:

C A M P A I G N   F O R   N E W   P A R   P O I N T S.

REPORT OF FEDERAL RESERVE BANKS, JULY 31, 1919.

Federal Reserve Bank of	National Banks in District	State Bank Members	Total Member Banks	Nonmember Banks on Par List	Ratio of nonmember Banks on Par List to total nonmember banks in District	No. of Banks added to Par List during July, 1919	No. of Banks added to Par List since Jan. 1, 1919	No. of nonmember banks not on Par List	Total No. nonmember banks in District
					%				
Boston	393	36	429	241	100	-	-	-	241
New York	627	111	738	318	100	-	-	-	318
Philadelphia	632	37	669	405	100	-	-	-	405
Cleveland	746	83	829	908	82.9	79	233	187	1,095
Richmond	532	42	574	374	26.2	35	100	1,056	1,430
Atlanta	365	60	425	337	21.2	18	87	1,254	1,591
Chicago	1,047	310	1,357	3,159	75.9	178	783	1,005	4,164
St. Louis	465	55	520	1,617	61.8	57	587	998	2,615
Minneapolis	816	77	893	1,348	47.1	40	179	1,517	2,865
Kansas City	977	33	1,010	2,372	73.0	88	191	877	3,249
Dallas	630	116	746	319	26.3	3	146	893	1,212
San Francisco	570	106	676	910	85.5	6	-	154	1,064
TOTAL	7,800	1,066	8,866	12,308	60.7	504	2,306	7,941	20,249

FEDERAL RESERVE BOARD
WASHINGTON
August 8, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

C O P Y

August 8, 1919.

For release to Monday Morning Papers,
August 11, 1919.

X-1648

Dear Sir:

The Federal Reserve Board acknowledges receipt of your letter of the 5th instant asking for an expression of its views as to the advisability of legislation providing for the gradual reduction of the currency in circulation as proposed by Senate Resolution 142.

The Board would suggest that in determining whether or not legislation is necessary or desirable to regulate the volume of currency in circulation, consideration be given to the various forms of money which make up the sum total of our volume of currency. A distinction should also be drawn between the stock of money in the country and the amount actually in circulation.

With respect to gold coin, gold certificates, standard silver dollars, silver certificates, subsidiary silver and Treasury notes of 1890, the Board assumes that it is recognized that no legislation is necessary.

The United States notes, or legal tenders, which have remained at the fixed amount of $346,681,016 ... since March 31, 1878, have not been a disturbing factor since the passage of the act of March 14, 1900. An adequate gold reserve of more than 45% is now held against these notes, most of which are in the form of small bills of $1, $2, and $5 denominations. Notes of these denominations are needed in the daily transactions of the public, and were the United States notes to be retired, the issue of an equal volume of small bills in some other form of currency would be necessary. To effect the retirement of the United States notes, funds would have to be withdrawn from the Treasury to be supplied either by taxation or by the sale of interest-bearing obligations. The Board does not believe that any legislation with respect to United States notes is necessary or desirable at this time.

The national bank notes outstanding on August 1, 1919, amounted to $658,118,555.00, a reduction of nearly $60,000,000 since July 1, 1914. The greater part of these notes is secured by United States 2% bonds, and provision has already been made in Section 18 of the Federal Reserve Act for their gradual retirement.

Federal reserve bank notes, which are secured by United States obligations and are taxed just as national bank notes are, have been issued only to replace in part national bank notes retired, and standard silver dollars melted or broken up and sold as bullion under authority of the act of April 23, 1918, known as the Pittman Act. The issue of these notes has, therefore, brought about no increase in the circulating medium.

The amount of Federal reserve notes outstanding has increased from $357,239,000 on April 1, 1917, to $2,504,753,000 on August 1, 1919. It appears therefore that those who see in the larger volume of circulation in the United States the prime cause of increased costs of living and who seek a remedy by a forced contraction of the currency must have in mind the Federal reserve note and Section 16 of the Federal Reserve Act as amended June 21, 1917, which provides for its issue and redemption.

In analyzing our present monetary situation, and in considering the causes which have led to the expansion of credits and note issues during the war, we should not lose sight of some of the developments of the pre-war period and of their effect upon credits and prices. Very heavy purchases of supplies of all kinds were made in this country by European belligerents during the years 1915 and 1916, payment for which involved the shipment to us of large amounts of gold. The stock of gold in the United States on July 1, 1914, was $1,890,678,304. This amount increased steadily until April, 1917, the date of our own entry into the war, when it reached $3,088,904,808, an increase of about $1,200,000,000. Bank deposits likewise show a large increase, the net deposits of national banks having risen from $7,495,149,000 on June 30, 1914, to $10,489,217,000 on March 5, 1917, while the net deposits of all banks in the United States increased from $17,966,150,000 in June, 1914, to $24,891,218,000 in June, 1917. Net deposits of national banks had further increased up to May 12, 1919, to $11,718,095,000, and those of all banks in June, 1918, (the latest date for which figures are available) to $26,769,546,000. Shortly after April 6, 1917, when the Congress declared war, the Treasury began to sell bonds, notes and certificates in large amounts resulting in a net increase in the public debt to August 1, 1919, of $24,518,064,840.

On July 1, 1914, the total stock of money in the United States, exclusive of that held by the United States Treasury, was $3,419,168,368

On April 1, 1917, the stock of money, estimated on the same basis, was $4,702,130,941, an increase of $1,282,962,573 of which increase $883,481,028 was in gold.

On July 1, 1914, there were no Federal reserve notes in existence, while on April 1, 1917, there were outstanding $357,239,000.

The amendment to the Federal Reserve Act approved June 21, 1917, changed substantially the original reserve requirements for member banks and provided that their entire lawful reserve should be carried with the Federal reserve banks. The same amendment authorized the Federal reserve banks to exchange Federal reserve notes for gold. The result of these two changes in the law was to transfer immediately large sums of gold from the vaults of the member and nonmember banks and from general circulation to the Federal reserve banks, and this caused a change in the methods of accounting for gold by the Federal reserve banks and Federal reserve agents.

In order to avoid confusion in determining the volume of money in actual circulation, it is necessary to distinguish between tables showing the total stock of money in the country, and tables showing the circulation outside of the Treasury and Federal reserve agents' vaults, and to limit our view to amounts held by member and nonmember banks and the public, which are exclusive of amounts on hand at Federal reserve banks, held by Federal reserve agents, and held in the Treasury.

The reserve money held by or for the Federal reserve banks serves, of course, as a basis for credit, but it forms no part of the currency in circulation. Upon this basis, the amount of money in circulation on July 1, 1914, (There being no Federal reserve banks in operation at that time) was $3,419,168,368, made up as follows: Gold coin and certificates $1,649,775,803; silver dollars and silver certificates, including Treasury notes of 1890, $552,203,610; all other currency $1,217,188,955, being circulation per capita $34.53.

The corresponding amounts of money in circulation on April 1, 1917, December 1, 1918, and August 1, 1919, are shown in the following table.:

AMOUNT OF MONEY OUTSIDE THE TREASURY AND FEDERAL RESERVE BANKS

	April 1, 1917	December 1, 1918	August 1, 1919
Gold coin and certificates	$1,989,152,000	$ 861,245,000	$ 728,046,000
Silver dollars and silver certificates, (including Treasury notes of 1890)	532,700,000	372,489,000	241,505,000
Federal Reserve notes	357,239,000	2,607,445,000	2,504,753,000
Federal Reserve bank notes	3,170,000	87,737,000	166,289,000
All other currency	1,218,715,000	1,201,069,000	1,156,297,000
Total	4,100,976,000	5,129,985,000	4,796,890,000
Amount per capita outside the Treasury and the Federal Reserve banks	~~$37.88~~ 39.57	$48.13	$45.16

Assuming that the date December 1, 1918, marks the begining of the post-war period, the table shows changes during this period up to August 1, 1919, as follows: Gold coin and certificates in circulation decreased $133,199,000; silver dollars and silver certificates, including Treasury notes of 1890, decreased $130,984,000; Federal reserve notes decreased $102,692,000; Federal reserve bank notes increased $78,552,000; all other currency decreased $44,772,000, being a net decrease in circulation for the post-war period of $333,095,000, or $2.97 per capita.

In considering the question of currency in circulation, there should be taken into account the various factors which have entered into the demand for currency, among which are: The gradual enlargement of payrolls, both as to the number of workers and amount paid to each; the effect of higher wages upon deposits in banks and upon the amounts of money carried by shopkeepers in their tills and by individuals in their pockets; the amounts of money locked up or carried on their persons by workmen who have been receiving high wages and who, especially in the case of ignorant foreigners, are unwilling to deposit their savings in banks or to invest in Government bonds; the amount of money carried away by workmen returning to their homes in foreign countries; and the fact that the circulating media of the Philippine Islands, Hawaii, Cuba, Porto Rico, Santo Domingo, Haiti, Honduras, Panama, and in part, Mexico, includes ~~of~~ United States paper currency and subsidiary silver. The amounts required in these countries, most of which are very prosperous, have greatly increased in the last few years.

The total foreign circulation of United States currency cannot be stated accurately, but is estimated to be at least one hundred and fifty million dollars.

The difficulty, indeed the impossibility, of keeping in circulation an excessive volume of Federal Reserve notes should be understood. The issue of these notes has been carefully safeguarded by the Federal Reserve Act, and ample provision has been made for their redemption. Federal reserve notes are redeemable in gold; they cannot be forced into circulation in payment of the expenses of the Government, or for any other purpose, as they can be issued only in exchange for gold or against a deposit of negotiable paper growing out of a legitimate commercial transaction, plus the required gold reserve of not less than 40 per centum. Upon payment of commercial paper which has been deposited to secure Federal Reserve notes, there rasults either an immediate return of an equal amount of notes to the bank, or an automatic increase in the percentage of gold reserve available for their redemption. Federal Reserve notes are not legal tender, nor do they count as reserve money for member banks. They are issued only as a need for them develops, and as they become redundant in any locality they are returned to the Treasury at Washington, or to a Federal Reserve bank for redemption. Thus there cannot at any time be more Federal Reserve notes in circulation than the needs of the country at the present level of prices require, and as the need abates the volume of notes outstanding will be correspondingly reduced through redemption. The increased volume of Federal Reserve notes in circulation during the past three years, in so far as it is not the result of direct exchanges for gold and gold certificates which have been withdrawn from circulation, is the effect of advancing wages and prices, and not their cause.

There has undoubtedly taken place during the last two years a certain amount of credit expansion which, under the circumstances connected with our war financing, was inevitable, but this will be corrected as the securities issued by the United States Government for war purposes are gradually absorbed by investors. This credit expansion is equal to the difference between the total of the war expenditures of the Government on the one hand, and on the other, the total amounts raised by the Government through taxation and by the sale of its obligations so far as paid for out of savings. No reliable estimate can be made of this difference, which must be gradually absorbed through future savings for the reason that banks are lending and will always lend freely on Government bonds as collateral.

The principal cause of the advance of prices before and during the war was the urgent need of the governments of the allied world for goods of all kinds for quick delivery in large volume, and the competition of this buying by governments with purchases by private individuals who failed to contract their expenditures at a rate commensurate with the growing expenditures of these governments. In the post-war period, through which we are now passing, the country has experienced rising prices owing, in part, to a general relaxation of the war time regime of personal economy, resulting in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. In addition, accrued incomes and increased wages have led to heavy demands for commodities not of prime necessity, which have resulted in diverting labor and material from essentials to nonessentials.

The Federal Reserve Board believes that any currency legislation at this time is unnecessary and undesirable, and would suggest that whether viewed from an economic or financial stand-point, the remedy for the present situation is the same, namely, to work and to save; to work regularly and efficiently in order to produce and distribute the largest possible volume of commodities; and to exercise reasonable economies in order that money, goods, and services may be devoted primarily to the liquidation of debt and to the satisfaction of the demand for necessities, rather than to indulgence in extravagances or the gratification of a desire for luxuries. The war is over, - in a military sense - and while the bills have been settled by loans to the Government, these obligations, so far as they are carried by the banks, must be absorbed before the war chapter of the financial history of the country can be closed.

Very truly yours,

W. P. G. HARDING

Governor.

Hon. Geo. P. McLean, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

FEDERAL RESERVE BOARD

WASHINGTON

August 8, 1919.
X-1649

Subject: Board's views as to need for legislation providing for reduction of currency in circulation.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter which the Board has today addressed to the Chairman of the Senate Committee on Banking and Currency in response to a letter from him requesting an expression of the Board's views as to the advisability of legislation providing for the gradual reduction of the currency in circulation, as proposed by Senate Resolution 142.

You will note that the Board desires that no publicity be given to this letter until the morning of August 11th.

Very truly yours,

Governor.

Enclosure.

EACH
LETTER TO/CHAIRMAN, GOVERNOR, MEMBER ADVISORY COUNCIL

FEDERAL RESERVE BOARD

WASHINGTON

August 11, 1919.
X-1650

Subject: Printing Requirements of Federal Reserve Notes.

Dear Sir:

The Bureau of Engraving and Printing has advised the Board that the present statement furnished the Bureau, giving, by denominations, the minimum balance of Federal Reserve notes of each Federal Reserve Bank required to be maintained in Washington, is not satisfactory.

The Bureau desires a schedule showing the average daily printing requirements of Federal Reserve notes of each Federal Reserve Bank covering a given period, and the Board, therefore, requests that you forward to it, as soon as practicable, an estimate of the daily amount of Federal Reserve notes and Federal Reserve Bank notes, by denominations, which you believe should be printed for your Bank during the three months - September, October and November.

It is planned to furnish the Bureau with a printing estimate every three months, but any Federal Reserve Bank may revise its estimate at any time in case new conditions justify.

Upon receipt of this information from all Federal Reserve Banks, the Board will prepare a schedule and forward it to the Bureau of Engraving and Printing for their guidance in meeting the requirements of the Federal Reserve Banks in the printing of Federal Reserve notes.

Very truly yours,

Acting Assistant Secretary.

LETTER SENT TO CHAIRMAN OF ALL BANKS

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release,
August 12, 1919.

PRESENT STATUS OF PROHIBITIONS RELATING TO FOREIGN EXCHANGE TRANSACTIONS.

By the Proclamation of the President, dated June 26, 1919, all previous proclamations prohibiting the exportation of coin, bullion, or currency, and the power and authority vested in the Secretary of the Treasury, and in the Federal Reserve Board, and all orders, rules and regulations issued or prescribed in connection therewith were revoked and cancelled except that such proclamations, orders, rules and regulations were continued in force and effect in so far as they were necessary to enable the Secretary of the Treasury and the Federal Reserve Board effectively to control --

(1) All exportations of coin, bullion, and currency to that part of Russia now under the control of the so-called Bolshevik Government;

(2) Any and all dealings or exchange transactions in Russian rubles;

(3) Transfer of credit or exchange transactions with that part of Russia now under the control of the so-called Bolshevik Government;

(4) Any and all transfers of credit or exchange transactions with territories in respect of which such transactions were then permitted only through the American Relief Administration.

This Proclamation did not authorize remittances to enemy territory which were thereafter, as theretofore, permitted only under special or general license of the War Trade Board. Under the General Enemy Trade Licenses issued up to the present time by the War Trade Board, however, such trade is permitted, except in certain specified articles and commodities, with all persons with whom trade is prohibited by the Trading with the Enemy Act, except trade with Hungary and that portion of Russia under the control of the Bolshevik authorities.

On June 30, 1919, the Federal Reserve Board announced that remittances to the countries referred to in the fourth exception mentioned above were not thereafter subject to any restrictions.

The Federal Reserve Board has just announced the issue of a general license permitting the exportation from the United States of Russian rubles, provided that notice of such exportations be given to the Customs Division of the Treasury Department and to the Division of Foreign Exchange of the Federal Reserve Board. This regulation does not authorize the importation into the United States of Russian rubles.

The present situation is, therefore, that all restrictions have been removed from the export of coin, bullion, and currency and from transactions in foreign exchange except as to (1) transactions with or for persons in that part of Russia now under the control of the so-called Bolshevik Government; (2) the importation of, or exchange transactions in, Russian rubles.

It should be noted that the War Trade Board has not authorized transactions with or for persons in Hungary.

FEDERAL RESERVE BOARD

WASHINGTON

August 21,1919.

X-1655

Subject: Form of Condensed Financial Statement.

Dear Sir:

There is enclosed for your consideration a form of condensed financial statement which was approved last year by the Clearing House Section of the American Bankers' Association. This statement is designed for the protection of banks which purchase commercial paper in the market or from note brokers, and the suggestion has been made to the Board that an impetus would be given to the use of this form if the Federal Reserve Banks should recommend it, and particularly if they should ask member banks having occasion to rediscount purchased paper to attach a copy of the statement at the time the offering is made. The Board is merely bringing this matter to your attention without recommendation.

Very truly yours,

Enclosure.

Governor.

Letter to each governor.

FEDERAL RESERVE BOARD

WASHINGTON

August 23,1919.
X-1657

Subject: Code Messages to be used in Rediscount Transactions between Federal Reserve Banks.

Dear Sir:

Referring to the Board's letter X-1613, of July 10, 1919, and X-1628, of July 24, 1919, on the above subject, the Board requests the use of the following code word effective September 8, 1919, in rediscount telegrams between Federal Reserve Banks, advising of advance payment of rediscounts:

RESORT: We are paying your bank today by direct transfer through the Gold Settlement Fund on account of proceeds of advance payment for our rediscount with your bank due (date) as follows:

Rate (4) per cent

(Name) or (Number) Amt. ($15,000) Disc. ($11.51) Proceeds ($14,988.49)
(Name) or (Number) Amt. ($10,000) Disc. ($ 7.67) Proceeds ($ 9,992.33)

Rate (4-1/4) per cent

(Name) or (Number) Amt. ($10,000) Disc. ($ 8.15) Proceeds ($ 9,991.85)
(Name) or (Number) Amt. ($ 5,000) Disc. ($ 4.07) Proceeds ($ 4,995.93)

Very truly yours,

Acting Assistant Secretary.

To chairmen of all Federal Reserve Banks.

TREASURY DEPARTMENT X-1656

June 25, 1919.

The Governor,
Federal Reserve Board.

Sir:-

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period June 9 to June 21, 1919, amounting to $82,205.75, as follows:

	$5	$10	$20	$50	$100	Total
Boston	65,000	50,000	3,000	5,000	---	123,000
New York	274,000	288,000	115,000	9,000	4,000	690,000
Philadelphia	39,000	18,000	23,000	1,000	---	81,000
Cleveland	8,000	13,000	2,000	10,000	---	33,000
Richmond	2,000	2,000	- ---	- ---	---	4,000
Atlanta	104,000	3,000	7,000	- ---	---	114,000
Chicago	228,000	88,000	115,000	5,000	---	436,000
St. Louis	59,000	- ---	26,000	4,000	1,000	90,000
Minneapolis	38,000	- ---	- ---	- ---	---	38,000
Kansas City	7,000	- ---	- ---	- ---	---	7,000
Dallas	103,000	- ---	- ---	- ---	---	103,000
San Francisco	93,000	17,000	8,000	- ---	---	118,000
	1,020,000	479,000	299,000	34,000	5,000	1,837,000

1,837,000 sheets at $44.75........................$82,205.75

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets	Compensation.	Plate Printing	Materials.	Inc. Compensation.	Total.
Boston	123,000	$1,875.75	$1,596.54	$1,707.24	$ 324.72	$5,504.25
New York	690,000	10,522.50	8,956.20	9,577.20	1,821.60	30,877.50
Philadelphia	81,000	1,235.25	1,051.38	1,124.28	213.84	3,624.75
Cleveland	33,000	503.25	428.34	458.04	87.12	1,476.75
Richmond	4,000	61.00	51.92	55.52	10.56	179.00
Atlanta	114,000	1,738.50	1,479.72	1,582.32	300.96	5,101.50
Chicago	436,000	5,649.00	5,659.28	6,051.68	1,151.04	19,511.00
St. Louis	90,000	1,372.50	1,168.20	1,249.20	237.60	4,027.50
Minneapolis	38,000	579.50	493.24	527.44	100.32	1,700.50
Kansas City	7,000	106.75	90.86	97.16	18.48	313.25
Dallas	103,000	1,570.75	1,336.94	1,429.64	271.92	4,609.25
San Francisco	118,000	1,799.50	1,531.64	1,637.84	311.52	5,280.50
	1,837,000	$28,014.25	$23,844.26	$25,497.56	$4,849.68	$82,205.75

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-1657

July 14, 1919.

The Governor,
Federal Reserve Board.

Sir:-

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period June 24 to June 28, 1919, amounting to $32,354.25, as follows:

	$5	$10	$20	$50	$100	Total
Boston............	18,000	16,000	-- ---	- ---	- ---	34,000
New York..........	77,000	140,000	63,000	9,000	- ---	289,000
Philadelphia.......	-- ---	30,000	14,000	- ---	2,000	46,000
Cleveland.........	2,000	-- ---	12,000	- ---	- ---	14,000
Richmond..........	25,000	-- ---	-- ---	- ---	- ---	25,000
Atlanta...........	56,000	25,000	4,000	- ---	- ---	85,000
Chicago	36,000	19,000	78,000	- ---	- ---	133,000
St. Louis.........	-- ---	26,000	5,000	- ---	- ---	31,000
Minneapolis.......	-- ---	2,000	-- ---	- ---	- ---	2,000
Kansas City.......	19,000	-- ---	-- ---	- ---	- ---	19,000
Dallas............	21,000	-- ---	-- ---	- ---	- ---	21,000
San Francisco.....	11,000	-- ---	13,000	- ---	- ---	24,000
	265,000	258,000	189,000	9,000	2,000	723,000

723,000 sheets at $44.75. ....$32,354.25

Thecharges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets	Compensation.	Plate Printing	Materials.	Inc. Compensation.	Total.
Boston......	34,000	$ 518.50	$ 441.32	$ 471.92	$ 89.76	$1,521.50
New York....	289,000	4,407.25	3,751.22	4,011.32	762.96	12,932.75
Philadelphia.	46,000	701.50	597.08	638.48	121.44	2,058.50
Cleveland....	14,000	213.50	181.72	194.32	36.96	626.50
Richmond.....	25,000	381.25	324.50	347.00	66.00	1,118.75
Atlanta......	85,000	1,296.25	1,103.30	1,179.80	224.40	3,803.75
Chicago.....	133,000	2,028.25	1,726.34	1,846.04	351.12	5,951.75
St. Louis...	31,000	472.75	402.38	430.28	81.84	1,387.25
Minneapolis.	2,000	30.50	25.96	27.76	5.28	89.50
Kansas City..	19,000	289.75	246.62	263.72	50.16	850.25
Dallas.......	21,000	320.25	272.58	291.48	55.44	939.75
San Francisco	24,000	366.00	311.52	333.12	63.36	1,074.00
	723,000	$11,025.75	$9,384.54	$10,035.24	$1,908.72	$32,354.25

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

X-1658

August 23, 1919.

SUBJECT: Interdistrict Time Schedule.

Sir:

The representatives of the transit departments of the various Federal Reserve Banks at the conference held in Washington on the 18th instant reported an interdistrict time schedule as set forth on the enclosed sheet. You are requested to bring this to the attention of your officers and Executive Committee and have it ratified as far as your bank is concerned, subject, of course, to any changes that may be necessary.

The Board will appreciate advice of the action taken.

Very truly yours,

Governor.

Enclosure.

Letter to each Chairman copy to Governor.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

August 27, 1919.
X-1659

Subject: Consideration of Senate Bills 2582 and 2590 by Federal Advisory Council.

Dear Sir:

The Board has suggested to the President of the Federal Advisory Council that consideration be given to Senate Bills 2582 and 2590 and that the Council, when it meets here on September 15th, make such recommendations as it deems advisable regarding the proposed legislation. At the request of Mr. Forgan, copies of the bills referred to are handed you herewith.

Very truly yours,

Governor.

Enclosures:

LETTER SENT TO EACH MEMBER OF THE FEDERAL ADVISORY COUNCIL EXCEPT MR. FORGAN.

STATEMENT FOR THE PRESS. X-1664

For release Friday afternoon,
September 5,1919.

Business and Financial Conditions during August.

During the month of August factors which had not hitherto arrested much attention exercised great influence on the business situation. Reference is made, of course, to the problem of commodity prices, in particular those going to make up the cost of living, and to the consequent condition of labor unrest. Whereas previously emphasis had been placed upon the great activity displayed by business, and the two problems mentioned appeared merely as disturbing elements in a general situation, which was considered satisfactory in the main, the problem of price readjustment and the difficulties connected with it now bulk largest. Discussion in connection with this readjustment is particularly centered upon the problem of the relation of wages and prices. A movement toward lower prices appears to be in process in certain directions, prices of certain foodstuffs are declining, and a feeling of conservatism is noticeable in certain lines, such as the textile and shoe industries, in which price advances had previously been most marked,"resales" at some concession in price being latterly reported. Reports received from the Federal Reserve agents generally indicate a feeling of confidence that a satisfactory solution of the price and wage problems will be reached. The actual volume of business transacted continues at an extremely high level for the present season of the year, although transportation difficulties and shortage of labor have been hampering factors in certain lines. Increased activity is in fact reported in certain of the basic industries. The agricultural outlook on the whole is distinctly less favorable than a month ago, although the large acreage sown in certain cases will compensate for decreased yield per acre. Cotton in particular is in poor condition. Reflecting the feeling of uncertainty which prevails, the volume of speculation has abated, and declines in the price of securities have occurred. The general business situation, while presenting some disquieting features, is however, at bottom strong. Barring industrial conflicts, the customary swell in the volume of business during the fall months is probable.

It is stated in district No. 1 that "the industrial unrest has overshadowed all other factors, and the intefference with transportation facilities has caused for the most part a general slowing down, due largely, however, thus far, to apprehension of the manufacturer rather than to any direct slackening up of business demand." In district No. 2 "business has continued in great volume and labor has been fully employed," while the situation, in spite of the disturbing elements which have appeared, continues favorable on the whole. In district No. 3, "while the volume of business transacted is very satisfactory, the business community is disturbed over the outlook owing to the continuance of labor agitation and efforts to reduce the cost of living." In district No. 4, although the same disturbing factors are noted, there is "continued improvement in all manufacturing lines." In district No. 5 "trade and commerce continue highly active, without apparent pause and without any material recession as yet in prices, but there is rather a suppressed feeling of uncertainty pending the eventual solution of present problems" In district No. 6 the agricultural situation is poor, but there has been "little of the usual slackening of commercial activity, although the agitation of the high cost of living has caused some merchants to exercise caution in buying." In district No. 7 "for the moment matters seem to be in a more reassuring state, The labor crisis, which was giving general alarm a fortnight ago, appears to have passed, and business is going forward on 'high gear'. " In district No. 8, although "no marked decrease in the volume of business is apparent", business in some lines has tended to become unsettled, and "there is evidence of uneasiness in some quarters". In district No. 9 "the general situation is very good" and should continue so for some time" "if the feeling of unrest among the laboring people can/ be quieted by a reduction in the price of food products and other necessaries." Reports from all sections of district No. 10 "indicate that business is moving forward with amazing strides under difficulties, and an unmistakable feeling of confidence in the continuation of busy and prosperous times" prevails. In district No. 11 general business conditions have apparently not been affected to any great extent by unfavorable factors. In district No. 12 conditions are generally favorable and the outlook is very good.

During the present month the commodity price situation has attracted widespread attention. A sharp increase in prices occurred during the month of July. The general index number of the Bureau of Labor Statistics for that month stands at 219, the highest level ever reached, as compared with 207 for the month of June, an increase of 5.4 per cent. The increase in prices, while general, has been greatest in the case of the group of consumers' goods, being 6.1 per cent for that group, as compared with 4.6 per cent for the producers' goods group, and 5.4 per cent for the group of raw materials. The index numbers for each of the subgroups included under the head of raw materials have also increased. The number for the animal products subgroup shows an increase of 8.4 per cent, while that for the mineral products subgroup shows an increase of 2.1 per cent, and those for the farm products and forest products subgroups show increases, respectively, of 4.1 and 6.6 per cent. Practically all the index numbers for the various groups given above represent the highest levels reached, and the vast majority of the individual commodities included in the construction of the index number increased in price. The general feeling of unrest which is noted has found one of its chief expressions in discontent with the high levels which prices have reached. Measures for controlling the situation and keeping the prices of necessaries at least within reasonable limits were taken by the Government, following the message of the President read before Congress on August 8. As far as the Federal Government was concerned these measures took the form of more drastic use of existing legislation, including the application of the provisions of the food control act to profiteering and hoarding. Congress has also under advisement the enactment of additional legislation extending to a number of articles other than foodstuffs the penal provisions of the existing act, and providing for greater publicity regarding wholesale prices of the principal articles of domestic consumption. Furthermore, sundry measures were undertaken, such as the disposal of surplus army supplies and the elimination, where practicable, of the middleman in the marketing of necessaries, etc. A much more conservative feeling now prevails in certain lines, such as the textile and leather and shoe industries, in which price advances have been most marked, and resales at some concessions in price are reported. The prices of some commodities, in particular foodstuffs, have shown a downward tendency since the opening of the month.

As corallary to the price problem and the high cost of living there is the feeling of labor unrest which is marked at the present time and which has given impetus to the agitation concerning prices. Reports from the majority of districts designate the labor situation as "unsettled", although from Chicago it is stated that "the labor crisis, which was giving general alarm a fortnight ago, appears to have passed," while several other districts report such conditions as fairly satisfactory. New wage demands and strikes, actual or threatened, are frequent in certain districts, although in Philadelphia it is stated that inquiry revealed "that actual difficulties were few." Labor conditions in the iron and steel industry have been unsettled, and the efforts to effect the unionization of the workers will be watched with interest. Traction strikes are reported from various centers. The strike of the railroad shopmen has been far reaching in its effects, and has resulted in material embarrassment to trade. The transportation situation is again in the foreground of public discussion, both in consequence of this strike and of the announcement by the railroad brotherhoods of their plan for the future operation of the railroads. In certain districts a decreasing efficiency of labor is remarked, which is ascribed to relaxation from war time pressure for maximum production. At the same time additional demands made by the workers have been granted, in large part due to the general shortage of labor, skilled and unskilled and city and farm, which exists in many sections. In many districts it is reported that no one who wishes to work need be idle, and actual surpluses of labor which are reported are few and scattered.

The agricultural outlook is in many ways less satisfactory than a month ago, in particular with respect to the grain crops. Excessive moisture at a critical stage has resulted in increased growth of straw and a reduced yield per acre of winter wheat, although, owing to the large acreage sown, it is expected that the country's crop will be the second largest ever produced. The outlook for spring wheat is also less favorable, the estimated yield on August 1 being only 225,000,000 bushels, as compared with 322,000,000 bushels on July 1. In district No. 9 "small grain reports are still very discouraging, showing a much lower yield per acre than was expected," but "the corn crop is in excellent condition." In district No. 10 " a good crop is assured," the corn being benefited by the August rains, while "conditions have been highly favorable to oats, rye, and barley." "The outlook for corn continues very favorable" in district No. 11. Reports from the Pacific coast indicate that less damage to grain has resulted from the "unfavorable conditions" reported last month than was anticipated.

The outlook for tobacco in Kentucky and Connecticut is promising, but excessive rain has caused damage in the Carolinas. Good fruit crops are reported on the Pacific coast. The condition of the cotton crop on July 25 was 67.1, the lowest on record at this date, and the yield was estimated at approximately 1,000,000 bales under that of last year. As a result of excessive rains, cotton has not fruited well, and the boll weevil has been active. There is a considerable "carry-over" of low grade, very short staple cotton, which is ordinarily exported. Spot prices of cotton in the South are reported to have been steady, although violent price declines occurred in both spot cotton and futures in New York during the month. In New England sales of the shorter staple show real declines in price, while long staple has not ceased to advance.

It is reported from the Kansas City district that milling operations have been heavy since new wheat commenced to arrive, but buyers of flour are not placing orders far in advance. Flour prices have declined only slightly, in about the same proportion as have wheat prices, while the price of corn futures has had a sudden drop from the former high level. Trade reports from various centers indicate that the demand for flour has decreased noticeably during the month. Flour production during July, as reported by the United States Grain Corporation was 8,339,000 bushels, as compared with 7,130,000 bushels during June. Meltings of refined sugar continue considerably in excess of the decreased receipts of raw sugar, and care is being used in the distribution of existing supplies.

Receipts of cattle at 15 primary markets increased from 1,122,782 head during June to 1,527,881 head during July, as compared with 1,697,193 head during July, 1918, the respective index numbers being 111, 152, and 168. Receipts of hogs show a falling off from 3,061,838 head during June to 2,411,539 head during July, and 2,530,414 head during July, 1918, the respective index numbers being 139, 110 and 115. Receipts of sheep again show a considerable increase, being 1,558,767 head during July, corresponding to an index number of 114, as compared with 1,116,003 head during June, corresponding to an index number of 82, and 1,148,488 head during July 1918, corresponding to an index number of 84. It is reported from the Kansas City district that the price of cattle has advanced from the lower level prevailing in June, while sharp breaks occurred from the record hog prices prevailing during July, hogs on August 15 being down to $22.25 per hundredweight, as compared with the top price of $23.40 reached during July.

In iron and steel further increase of activity is noted. Pig-iron production has increased from 2,114,863 tons during June to 2,428,541 tons during July, the respective index numbers being 91 and 105. Steel-ingot production has increased from 2,219,219 tons during June, corresponding to an index number of 92, to 2,508,176 tons during July, corresponding to an index number of 104, while the unfilled orders of the United States Steel Corporation at the close of July were 5,578,661 tons, as compared with 4,892,855 tons at the close of June, the respective index numbers being 106 and 93. The steel industry at the close of July was reported to be operating at from 70 to 80 per cent of capacity.

Price increases are reported in certain cases, but leading producers favor continuance of the established levels. Brisk purchasing of pig iron has continued, with prices tending upward, but producers are reluctant to book orders for delivery beyond January. The demand is still chiefly for the products noted in last month's report. Manufacturers of lapweld pipe, wire, sheets, bars, and tin plate have sufficient business booked to enable them to operate for a considerable period. Among the lines which have lagged, improvement is noted in the demand for plates and shapes, while the railroad purchases for maintenance account have given much encouragement to the industry. Slight improvement is noted in the demand for structural steel. It is reported from district No. 3 that the increase in the tonnage ordered is represented by a large number of moderate sized orders, and indicates a better promise than if a few large tonnages had been closed. Active export inquiries are noted. Trades allied with the iron and steel industry, such as machine tools and hardware, are very active. The industry has been hampered by the labor situation. Operations in some centers, notably Chicago, were hindered by the strike of the railroad shopmen, which in conjunction with a strike of dock workers at upper lake ports interfered with iron-ore shipments. The principal question, however, is that of the unionization of the industry, which is at present engaging the efforts of labor leaders.

Consumers have taken heed of the warnings as to a possible coal shortage, and heavy purchasing is reported. A rush of buying by consumers of anthracite coal appeared as a result of the publicity campaign of the bituminous producers, and the anthracite producers are now seeking to reassure the public of the sufficiency of prospective supplies of anthracite. Production of bituminous coal during July amounted to 42,946,000 tons, as compared with 36,806,000 tons during June, the respective index numbers being 116 and 99. Anthracite coal shipments during July also increased, being 6,052,334 tons, corresponding to an index number of 108, as compared with 5,619,519 tons during June, corresponding to an index number of 100. Coal production is being impeded in certain sections by labor difficulties and by car shortage, and the output of bituminous shows a considerable decrease during the present month. The output of beehive coke during July was 1,512,178 tons, as compared with 1,170,752 tons during June. Increased demand for coke is reported in district No. 7 as the result of the opening of additional blast furnaces.

The activity in the copper market noted for the month of July has subsided. Sales by producers during that month, amounting to 225,000,000 pounds, were the largest for any month during the present year, the figure for May, the next highest, being 208,000,000 pounds. It is stated that producers of copper and zinc have booked sufficient business for the months of August and September and are now opening their books for October. Stocks of refined copper and lead are diminishing. During the month of July higher prices continued to be paid for both lead and zinc ores in the Joplin district, and had a rather stimulating effect upon production. Lead likewise increased in price. During August transactions in copper, lead, and zinc have consisted largely of resale by speculators, and shading of prices has occurred. A factor in the zinc situation at the opening of August was the decision of the Government to throw its surplus stocks upon the market. The tin market has been quiet and prices have declined, with expectation of still further decline now that free importation is permitted.

General manufacturing continues active. The "feverish activity" which characterized the textile and dry goods industry for several months has abated somewhat, but business is still unusually heavy for this period of the year. A spirit of greater conservatism on the part of buyers, however, is noticeable. These conditions are seen particularly in the case of cotton goods. While mills have plenty of business booked, and hence show no disposition to make price concessions, holders of goods for resale feel less secure than they did previously and are willing to make concessions in order to dispose of their holdings. Despite the feeling of conservatism, however, the market readily absorbed, at prices in most cases closely approximating current market prices, the large Government-owned stocks of cotton cloth offered at auction on July 30. Trading in cotton yarns is reported to be relatively small.

The raw-wool market is quieter than a month ago, but prices are firm. Most of the mills have sufficient wool with which to complete present contracts. Worsted spinners are unwilling to offer goods for delivery after the first of the year. Woolen mills are still busy on orders for fall delivery. It has been evident for some time that offerings of goods for the spring season of 1920 will be restricted. Such lines of men's wear goods as have been opened are selling up rapidly, and an allotment system prevails, as is largely the case also in other branches of the textile industry. Manufacturers of men's and women's clothing report a very large business. Textile and garment manufacturers, because of subsequent increases in the cost of production, are reported in many cases to be seeking to obtain a higher price for goods delivered on contracts made in the opening months of the year. Heavy purchases of cotton underwear are reported, in particular for the current fall season.

The demand for silk hosiery continues. A feeling of caution prevails on the part of the majority of buyers of cotton hosiery, which is not the case with buyers of silk hosiery and underwear. The raw-silk market is dull.

A more conservative feeling is evident in the hide, leather, and shoe industries. Tanners are cautious in their hide purchases and in the acceptance of orders for future delivery. It is reported from Boston that "leather is not in quite as great demand as a few weeks ago, but while prices have become steadier, they are still high with further increase anticipated." Upper leather continues to display the greatest strength. The volume of shoe sales continues large, and demand is still for the better grades. The high prices prevailing for materials, however, enforce caution, in particular with respect to orders for future delivery.

Automobile manufacturers report an extraordinary demand, coupled with a steady increase in production. Manufacturers of auto accessories in the Cleveland district report similar conditions, while manufacturers of electrical supplies in that district have booked a large number of orders.

Retail trade continues exceedingly active, and in many sections little of the usual midsummer lull is noted. The demand for watches and jewelry continues very heavy, while in some districts a lessening of the demand for shoes and clothing is perceptible. Heavy purchases by retailers in many lines are reported, a considerable volume of orders being placed for future delivery, although in Kansas City it is stated that some merchants are now placing more frequent but smaller orders. Complaints continue to be heard in the western districts of the inability of jobbers to get merchandise to meet the retailer's requirements. In Cleveland it is stated that "most merchants have accepted the fact that merchandise is very scarce and that prices are going to remain high for some time," and in New York it is stated that "the consensus of opinion seems to be that retail prices are likely to be fairly steady for the next six months."

The increase in building activity continues, Permits issued during July were the largest for any month during the present year, and actual construction likewise shows an increase. The activity, however, in many sections is still distinctly below normal. In New York City construction is considered to be at about 50 per cent of the normal prewar activity. The shortage of dwellings is expected to continue for some time to come, and large manufacturers in certain districts are engaging in home-building projects in the interest of their employes. Construction is being hindered by the high cost and shortage of both labor and materials. Further advances in the prices of various classes of lumber have occurred, but it is reported that there is considerable feeling in the industry in favor of stabilization of prices. Orders and shipments of lumber in general continue to exceed production, and stocks are being further depleted. The building trades lockout in Chicago continues and all construction is held up. In certain districts the activity in real estate continues and prices are rising, while in Iowa and Illinois options are now employed in dealing in farm lands.

Official figures for the month of July show an export balance of $225,000,000, as compared with $620,000,000 for the month of June. The decline in exports, while general, has been relatively greater for foodstuffs and for finished manufactures than for crude materials and manufactures for further use in manufacturing. A considerable part of this decline is probably to be ascribed to the harbor strike in New York, and no hasty conclusions as to the future course of our foreign trade should be drawn from the month's development. The expected resumption of a large cotton exportation has not occurred, the July figures of raw cotton exports showing considerable decline from those for June. Active inquiries are reported by the iron and steel industry. Following the settlement of the New York strike improvement in the shipping situation is noted, and a lower level of ocean freight rates to Great Britain and the Argentine prevails.

For some time after the opening of the month, speculation continued at an extraordinarily high level, but was succeeded by a period of relative quiet in the stock market. Public participation in the market has become noticeably absent, as the influence of the various deterrent factors has been felt. Large and sudden declines in the prices of stocks have caused an unprecedented volume of liquidation. Bond prices have also declined. There has, however, been heavy absorption of new issues of securities, and the volume of incorporations during July reached a record figure. Fluctuations in the call-money rate have been confined within relatively narrow limits, and call money on the whole has become easier. On August 6 a rate of 3 per cent for loans on mixed collateral was reached, which was a new low record for the year, while the highest rate for such loans during the month was 8 per cent, attained on August 22. The Board's figures of the volume of check transactions continue at the high level noted for the month of July. Interest rates are firm, and on the whole exhibit no marked changes. A strong demand for funds is reported in certain districts, although liquidation is noted in other districts as returns from the sale of crops are received. Coincident with the decline in call-money rates since the middle of the month a good demand for acceptances is reported by dealers. Foreign-exchange rates showed a practically continuous decline during the earlier part of the month, sterling, francs, and lire among the more important exchanges reaching new low levels, being quoted on August 20 at 4.1625, 8.16, and 9.57, respectively. Many of the older as well as practically all of the newer European nations are seeking American credit, and credits have been granted to several. The banking situation continues to be regarded as sound, credit and collection conditions are good, and failures continue unprecedentedly small and few.

X-1666

FEDERAL RESERVE BOARD

WASHINGTON September 5, 1919.

Dear Sir:

As the gold which was received from Germany in payment for food supplies is transferred from Belgium and Holland to the Bank of England and earmarked for the account of the Federal Reserve Bank of New York (then to be prorated among all Federal Reserve banks), it will be counted as part of the gold reserves of the Federal Reserve Banks. The total amount of gold which will be involved in the transfer will be in excess of one hundred and ten million dollars, and as received and earmarked from time to time by the Bank of England will be reflected in the increased percentage of reserves.

For sometime past the combined percentage of reserves of Federal Reserve Banks has fluctuated between 49½% and 53%, but it should be remembered that for several months immediately preceding April 1917 the combined reserves of the Federal Reserve Banks ranged from 65% to 80%.

You are requested to inform the officers and directors of your bank that it is the view of the Board that as new gold is received it should be used to strengthen the reserve position of the Federal Reserve system and that these improved reserves, whether growing out of an actual increase in the amount of gold held or because of contraction in the amount of credit extended, should be regarded merely as a symptom of return to more normal conditions and not as an incentive to a loan expansion not essential to the public interest nor to the accommodation of commerce and business.

It has been the policy of the Board for sometime past to maintain the combined reserve of a Federal Reserve Bank at not less than 40% by means of rediscounts with other Federal Reserve Banks whenever that level was reached, but the Board wishes it understood that with a general improvement in reserves a higher standard may be established in which case a Federal Reserve Bank might be expected to rediscount when its reserve approximates 45%.

Very truly yours,

Governor.

This letter sent to Chairman of each F. R. Bank

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

To be released for morning papers September 8, 1919.

The Review of the Month for the September Federal Reserve Bulletin is devoted mainly to a discussion of cost of living, foreign exchange, foreign trade and foreign financing problems. It says:

Cost of Living. High prices and the advancing cost of living have become the occasion of widespread anxiety in the United States, and recently have become the subject of legislativn attention. The President in an address to Congress on August 8, declared that "the prices the people of this country are paying for everything that it is necessary for them to use in order to live are not justified by a shortage in supply, either present or prospective." The Federal Reserve Board in a letter of the same date to the Senate Committee on Finance and Banking (published in the August Bulletin), rejected the idea that "excessive" volume of currency was the cause of prevalent high prices. This is the view which has been consistently maintained by the Board, the letter being merely a restatement with amplified detail of the position taken by the Board on previous occasion, notably in the October, 1918, Bulletin (p. 927), where the conclusions were expressed that "the increase in the ciruulation of the Federal Reserve note has been in the main in response to actual needs, and that whatever inflation of prices may be said to exist can not properly be said to have been induced by overissue of Federal Reserve notes." In its recent letter, particular occasion is taken by the Board to point out "the difficulty, indeed the impossibility, of keeping in circulation an excessive volume of Federal Reserve notes. They are issued only as a need for them develops, and as they become redundant in any locality they are returned to the Treasury at Washington, or to a Federal Reserve Bank for redemption. Thus there can not at any time be more Federal Reserve notes in circulation than the needs of the country at the present level of prices require, and as the need abates the volume of notes outstanding will be correspondingly reduced through redemption. The increased volume of Federal Reserve notes in circulation during the past three years, in so far as it is not the result of direct exchanges for gold and gold certificates which have been withdrawn from circulation, is the effect of advancing wages and prices, and not their cause."

Under the elastic note-issue system provided by the Federal Reserve Act, the Federal Reserve note possesses a self-regulating quality quite automatic in its operation. While it is technically a true statement to say that the Federal Reserve note when issued is issued by the Federal Reserve Bank, the greater truth in understanding our present monetary machinery is missed unless it is perceived that the occasion of the issue of a Federal Reserve note is determined not by the bank for itself but for the bank by the community. The question whether or not a Federal Reserve note shall be issued is decided by the business and general community in accordance with its circulation needs. It is its needs rather than the bank's desire which determines the question of issue. Thus, then, the Federal Reserve note when issued is issued at the instance of the community, not at the instance of the bank. That this must inevitably be so is clear from an appreciation of the fact that there is no method by which the Federal Reserve Banks, even should they so desire, can put out and keep out a greater quantity of notes than the convenience of the community requires, so long as the facilities for the redemption and retirement of the reserve notes provided by the Federal Reserve Act are maintained, as they have been since the organization of the Federal Reserve System, in a state of effective operation.

Banking Expansion. While thus disposing of the currency as the cause of rising prices, the Board does not overlook the important influence exerted by credit expansion. That the expansion of credit has been a considerable factor in our financial and price situation is clear; that it is a continuing factor and one which still calls for correction by the process of increasing production and savings and by the investment of the proceeds of savings in the absorption of Government bonds is equally clear.

The most recent data available show that for the year ending June 30, 1919, total deposit liabilities in national banks increased by the amount of $1,902,356,000, or from $14,021,609,000 to $15,924,865,000, and that loans and discounts increased by the amount of $954,436,000, or from $9,620,402,000 to $10,574,838,000. The increase in deposits, therefore, exceeded the increase in loans and discounts by the amount of $948,920,000, or close to 100 per cent. The rate of increase in deposits for the year was 13.6 per cent, as against 9.92 per cent for loans and discounts. A substantial portion of the increase in deposits, it appears, must therefore be accounted otherwise than by an increase in the commercial loan account of the banks. The significant change in their resources is found in their investments in Government bonds and Treasury certificates. These increased by an amount of $1,055,127,000, or from $2,116,785,000 to $3,171,912,000, an increase of 49.8 per cent. It thus appears that the increase of deposits noted above is to a considerable extent to be regarded as a pure credit expansion not called for by increased industrial activity, but occasioned by the use of the banks' credit for Government financing. It shows once more how much care and discrimination must be used in interpreting increases in bank "deposits" and bank "resources" in times like the present and the recent past, when conditions in the financial world have been so highly abnormal.

The naive idea that a bank deposit normally originates by the bank's dustomer making a deposit of cash in the bank does not reveal the substance of the situation in countries like the United States, with a highly developed system of bank credit and its utilization through the form of the deposit account. The most usual form in which bank deposits originate is by borrowers going to a bank to seek accommodation and offering their notes for discount, the bank making the loan sought by the customer by opening a credit or "deposit" on its books in the borrower's favor. Normally, therefore, what are called deposits increase as loans and discounts do; in other words, as borrowings from banks increase. When such is not the case and the loans and discounts do not grow in correspondence with the deposits, the cause of expansion will usually be found in an increase in the investment account of the banks. Such, in fact, has been the trend of our banking operations during recent years, notably since our entry into the European war. It is a mistake, therefore, to deduce from the rapid increase of bank deposits inferences as to the growth in wealth or prosperity of the country at large. Were the growth of bank liabilities to be invariably taken as an index of the growth of real wealth, it would have to be admitted that some of the recent European belligerents, an inspection of whose banking situation reveals a very much more rapid growth in bank liabilities and resources than does the situation of our banks, were experiencing greater prosperity and a more rapid growth of wealth than the United States. Such has, however only too obviously not been the case. Europe's economic and financial condition is serious and worst in those countries where the credit and banking situation is most extended.

Europe's Economic Situation. The gravity of the economic and financial situation left Europe by the war has latterly been the subject of frequent comment from statesmen and business leaders there.

The British Chancellor of the Exchequer (Mr. Austen Chamberlain) in presenting his budget last spring, called attention to "hard and inexorable economic facts obscured by a fictitious appearance of wealth". "There is," said the Chancellor "between two and three times as much legal tender money in circulation as there was before the war. The deposits at the joint-stock banks have more than doubled. The position of these banks, judged by every approved criterion of sound banking, is stronger than it ever was before, but the securities - British Government securities standing behind the deposits, standing behind the legal tender money - represent to a large extent not existing wealth, but wealth consumed in the operations of the war, which it must be our business to replace out of the exertions of the present. Both are drafts of future labor on the future creation of wealth. Pending their payment they are an immense reservoir of artificial purchasing power, and therefore diminishing in effect with each new increased issue.

"Look behind the counter and you see a different picture. We have sold one thousand million of our foreign investments, losing the equivalent power to draw on the wealth created in foreign countries. We have incurred debt to the extent of £ 1,300,000,000, but the position of our debtors forbids us to count upon their claims for large immediate relief. Ultimately and gradually that relief will, we hope, mature, but we can not count upon it for immediate purposes. In years to come a considerable part of our production must be devoted to paying our foreign creditors a part, and a large part, making good the wastage and arrears of war. Our roads, our railways, and in a lesser degree - still, in some degree - our machinery suffer from the absence during these past years of the ordinary upkeep and development. Houses, which were short before the war, are now hopelessly in arrears. A large part of the production of the next - I don't know whether I should say few years - a large part of the production of the coming year - both the production of labor and of capital - will be needed to make good those losses and to pay the new liabilities that we have incurred.

"I ask the committee therefore to be under no misapprehension as to the magnitude of the task which lies before us. Again I repeat that there is urgent need for national and individual economy. Nothing but the unity of all classes, comparable to that which we have seen in the years of war, will enable us to face the years of difficulty which must follow at the conclusion of so great a crisis."

More recently the British Premier (Mr. Lloyd-George), in an address to the House of Commons on August 19th, in speaking about the financial situation, laid particular stress on the serious magnitude of England's adverse trade balance. According to his statement, that balance already amounts to $4,000,000,000 and threatens to reach $5,000,000,000 if Great Britain continues in its present course. Before the war the adverse balance amounted, for a series of years, to an average of $750,000,000. This then presented no difficulty because of England's large overseas investments, the full magnitude of which have only recently become public.

The entire amount at present accruing from foreign sources is estimated at about $500,000,000, an amount just about sufficient to pay the interest upon her foreign obligations. England's immediate problem is the reduction of the adverse balance. "We must bridge the chasm or at the bottom of it is ruin," said Lloyd-George. "We are building a temporary bridge by borrowing; not only state borrowing, but traders' borrowing, for raw material, food, etc., that will only add to the catastrophe. In every direction we are spending more, and we are earning less; we are consuming more, and we are producing less. These are facts; it can not last." In every line, except agriculture, according to the Premier's statement, British output is less.

Mr. Asquith, former British Premier, discussing the economic situation in a speech delivered before the Free Trade Union recently, asked:"What is the real remedy against high prices and of the individual hardships which the war has brought? First and foremost, public economy * * *. The next thing is increased and better production * * *. The prime economic need at this moment of mankind is that production should be increased until the maximum output is obtained. What is true at home in the domestic sphere is not only equally true but more significantly true in the international sphere."

<u>TRADE BALANCES.</u> The "adverse" trade balance complained of in England is most manifest in her relations with the United States. On our side it has given rise to a situation which is conventionally described as a "favorable" balance of trade because of the large excess of goods exported above those imported, leaving a resulting balance of indebtedness to be met. Looking at the matter from the point of view of the ordinary American consumer, however, the effect of such a "favorable" balance of trade is far from favorable for him. Whatever economic and financial justification there may be for the vast quantities of merchandise the United States has been sending to Europe, payment for which, looking at the transaction from the point of view of the nation as a whole, is to be made sometime in the future when

the economic and financial circumstances of the importing nations of Europe are more satisfactory, the immediate present effect of it in many lines of industry is to curtail the supplies available for the American consumer and thereby to become a factor of considerable importance in our price level. To the extent that the American consumer, or a sufficient percentage of American consumers, do not voluntarily reduce consumption by amounts sufficient to release for the use of the European consumer the great quantities of goods which are being sent oversea, there results in the American market competition between the European demand and the American demand, the inevitable effect of which is to drive up prices and to induce the speculation which rising prices usually occasion. "Buying in competition with export demand" undoubtedly has been a major cause of rising prices in the post-war period in the United States. For the fiscal year ending June 30,1919, the exports from the United States amounted to $7,225,100,000, and imports amounted to $3,095,900,000, leaving therefore an excess of exports amounting to $4,129,200,000 as against $2,974,000,000 for the fiscal year 1918, and $3,630,700,000 for the fiscal year 1917. It is noteworthy not only that the figures of our exports and our net exports for the year 1919 are the highest ever attained, but also that the volume of our exports showed with little interruption an increase through the fiscal year, attaining its highest point in June, the last month of the fiscal year, when our total exports amounted to $918,300,000. Elsewhere in the current number of the Bulletin are presented details of our export trade, showing its composition by leading groups of commodities and their volume by quantity as well as by value. It appears that the greatest increase in our exports for the fiscal year 1919, as compared with the preceding year, was in the groups "Foodstuffs" prepared and unprepared. Exports in these groups showed an increase in value of over 63 per cent. Bacon, hams, and lard showed an increase in value of about 85 per cent compared with the preceding year, and an increase of more than 60 per cent in quantity. The group "Manufactures ready for consumption," which constitutes the largest single group for both years 1918 and 1919, shows an increase for the latter year of 9.1 per cent, notwithstanding that the item "Explosives" showed a decrease of over $250,000,000 in 1919 as compared with 1918.

Whether our export trade will keep up anything like the 1919 volume during the current fiscal year (July, the first month of the year, shows a falling off of exports by $348,169,000), seems doubtful, but it seems highly probable that it will maintain a volume so far in excess of the normal ratio of our exports to total production in prewar days that it will be a factor of moment in the domestic price situation and in living costs. As long as circumstances make it necessary or advisable for the United States to sell a large volume of merchandise to Europe on credit, there must be shortages of supply in the domestic market unless industry is kept in a state of high activity and all hands are at work to increase output. Unless this is done resulting shortages will mean reduced consumption to be met either by voluntary saving on the part of the consumers, or compulsory saving through the process of high or even perhaps rising prices.

The whole situation is one that can be met, as pointed out by the Board a month ago, only if the doctrine "work and save" is taken to heart by every class in the Nation and made its guiding principle until the trying conditions left by the war are finally surmounted. "Only by keeping the cost of production on its present level, by increasing production and by rigid economy and saving on the part of the people can we hope for large decreases in the burdensome cost of living which now weighs us down," said the President in his address to the country on August 25.

<u>Foreign Exchange Situation.</u> Closely associated with the movement of our export trade noted above, have been the further and considerable declines in the values of foreign currencies in terms of the dollar, which have given rise to considerable discussion of the probable effects of such declines. These declines are primarily due to the fact that foreign countries have large payments to make in dollars to

the United States at a time when they are not sending us commodity exports of corresponding value to their imports from us to provide the exchange requisite to pay for their American purchases. Otherwise stated, the decline in the value of foreign currencies, when exchanged for dollars, makes more expensive payments in dollars by countries having available for such purpose only their own currencies. Current discussion of these conditions too frequently treats the problem of the foreign exchanges and our export trade separately from the problem of domestic trade. It is too frequently assumed by those complaining of the fall of foreign exchanges that trade on the scale of our recent exports is a thing desirable in itself and to be kept up by keeping up the value of foreign currencies in the American market. But when the export trade is considered in connection with the domestic trade it becomes clear, as already pointed out, that the source of much of the difficulty presented by the existing situation is the continued competition of the export demand and the home demand. The state of the foreign exchanges merely reflects the state of international trade. The correction of the exchange situation so much complained of by those who look at the matter from the exclusive standpoint of the export interest, will, therefore, only find its natural and permanent solution through a reduction of our exports and an increase of our imports until they reach a point of approximate equilibrium.

Corrective effect of falling exchange. It should be understood that a decline in exchange operates as a corrective to the situation which has brought about the decline, by checking exports and stimulating imports. Viewed, therefore, purely from our own domestic standpoint, the falling exchange rates are beginning already to relieve the present abnormal and difficult situation. The large volume of exports during the past few months has been rendered possible by advances from the United States Treasury to the governments associated with us in the war. These advances have amounted, from the date of the armistice to August 31, to $2,177,096,212. There is some danger also that the present abnormal situation may undergo a more violent change in the future when European countries shall have stocked up on commodities and our domestic consumers have gratified the mood of reaction from war economy, and we may then experience an abrupt falling off in exports so great as to embarrass some of our industries which anticipated their natural growth under the intensified stimulus of war conditions. Such a condition can be averted through timely action by the industries involved, which should be considering the steps necessary to correct such a situation in case it should arise. The fact remains, however, that the present relationship of exports to imports - the volume of one being very large and the other comparatively small - is unhealthy and seriously disadvantageous to this country, looking at the situation purely from our domestic point of view.

Looking at the matter from another angle, it is evident that European countries find it difficult in the present circumstances to make purchases in this country, but the outstanding fact is that these countries have not seen fit so far to adopt any effective measures for the correction of existing rates of exchange. Ministers of several of these countries have looked with complacency upon the decline in exchange which tends to limit purchases here. This decline makes it possible for the countries affected to leave their commerce unrestricted without danger of having their nationals overbuy in our markets.

There are many factors constantly at work which can not be fully enumerated or even traced, which tend to correct the decline of exchange, and some are already operating to that end and they will tend to operate more effectively with every successive decline, but it should be borne in mind that while declining exchange operates to set in motion certain corrective factors, after an exchange rate has had its decline and is oscillating moderately around a lower stabilized base the tendency is for all factors to adjust themselves about the new base. In other words, a declining rate of exchange tends to produce certain effects, while a rate of exchange which has experienced a decline and is more or less stable at a lower level produces these effects in a much smaller degree. The tendency of a declining rate of exchange for the currency of any country is to stimulate exports from that country and to curtail imports; a declining rate offers residents of the country involved a heavy premium on the sale of their foreign securities in countries in whose favor the exchange rate is running. This premium is in many countries a more powerful argument with the private holder of foreign securities than any government requisition can be; it tends to make foreign creditors to whom money is due in currency of the debtor country leave the funds on deposit pending a more favorable time for their transfer to the creditor country; it stimulates the nationals of the debtor country to borrow abroad and remit the proceeds home for domestic use, as any improvement in exchange will afford a profit at the time of repayment. These are a few of the corrective factors.

Providing for foreign demands. From the best information available it appears that the probable demands of foreign nations upon this country for reconstruction purposes have been greatly overestimated in the public prints. It is perhaps not unnatural in a situation where distressed peoples feel they must draw for their needs on a limited fund of capital that they should estimate their requirements very liberally or else they may not be sufficiently supplied. For many reasons it appears that the needs of Europe should be supplied through the private initiative of foreign manufacturers, merchants, and bankers dealing with similar American groups and not through the concerted efforts of the governments concerned.

From the standpoint of the borrowing country already burdened with an enormous public debt, money borrowed by private individuals for use in their own business will be expended more carefully and judiciously and better provision will be made for its repayment than would be the case if the money should be borrowed by governments, where other than purely economic conditions may influence the expenditure. It has been well said that where money is borrowed for reconstruction purposes by governments the tendency has been to establish bread lines instead of wood yards; in other words, to subsidize unemployment rather than to create employment. From the viewpoint of the lending country; i. e., the United States: after completing its own war financing the ability of our Government to assist foreign Governments without vast inflation and consequent danger to our own credit is problematic. The American people have subscribed liberally to war loans, but there is nothing to indicate that when they shall have closed the account by doing their part in such financing as remains to be done to liquidate the war bills they will be inclined to buy any considerable amounts of bonds of this Government for the purpose of further financing Europe.

The complete stabilization of foreign exchange could be effected only through unlimited advances to foreign countries, advances against which those countries will draw as their needs require. As drafts are drawn and sold abroad, the proceeds in foreign currency would go to the Governments concerned and become available for the purposes of those Governments. This process would give those Governments power to draw on this country indefinite amounts for unspecified or undisclosed purposes, and to meet these drafts our Government would have to sell additional obligations to its own citizens. Thus, to the extent of the credits extended, the burden of foreign war debts would be transferred to the shoulders of the American people, offset, of course, by such repayments on account of interest or principal as the foreign Governments might make from time to time; but even if ultimately fully offset, our own

Government obligations must still in the first instance be marketed.

Existing machinery. There is no reason to doubt that private initiative, supplemented by such facilities as governmental agencies are authorized to make under existing law, can deal effectively with the present situation. Facilities are provided by the Webb-Pomerene Act and by the War Finance Corporation act as amended. Manufacturers can combine to form export companies, putting in as capital such sums as they are severally willing to devote to the export business, and these corporations can borrow from the War Finance Corporation sums based upon their financial standing. The responsibility of the interest directly concerned is essential to prevent reckless business, and unless we propose to burden our people generally for the purpose of subsidizing exports, those whose products are to be sold and who reap the advantage of such sales ought, with the aid above outlined, to be prepared to finance their own sales.

Pending legislation and safeguards. Such are the fundamentals of the situation and the purposes to be achieved. As for providing the machinery for achieving these aims, certain things remain to be done, and legislation covering these points is now pending in Congress, notably the Edge bill, which provides Federal charters for corporations principally engaged in foreign transactions and financing, and another bill, amendatory of section 25 of the Federal Reserve Act, which permits national banks to invest 5 per cent of their capital and surplus in the stock of such corporations.

Credits extended abroad and foreign securities purchased must in nearly all cases run for periods beyond the limitations of ordinary banking credits, and banking resources can be safely utilized to a limited extent only in giving the accommodations now needed abroad. Appeal must be made to those who are in a position to purchase securities for investment and pay for them with funds accumulated to their credit in bank. Such purchases reduce bank deposits and as the proceeds are, under present circumstances, most likely to be applied directly or indirectly to the reduction of bank loans, they tend to strengthen the percentage of bank reserves. The fact that many banks and trust companies have investment departments and deal in securities through these departments tends to obscure this distinction. Some confusion results also from the difference between the British and American use of the term "trust company." In Great Britain a trust company is an investment corporation issuing its debentures to the investing public and holding in trust for the debenture holders the securities which it purchases. With us a trust company is practically a banking institution holding deposits which must be paid on demand or on reasonable notice.

Looking to the soundness of the American banking system, which is at all times concerned in preserving the liquidity of the banks, it is of first importance that present conditions and their bearing on the banking situation should be fully understood by the public and that our banking institutions be not loaded with slow credits and with investment securities of limited marketability. It must not be forgotten that any issue of United States Government securities beyond the ability or willingness of the investing public to absorb will mean that the obligations will go, not into the hands of investors, but must be carried by the banks either as investments or as loans, thus expanding still further an already expanded volume of credit, which it should be the aim of the banking community to reduce gradually to more normal limits.

FEDERAL RESERVE BOARD

WASHINGTON

September 5,1919

X-1668

Subject: Campaign for New Par Points.

Dear Sir:

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of August 29th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

In addition there is also enclosed a special report showing nonmember banks not on par list distributed by States according to Federal Reserve Districts.

Very truly yours,

Enclosures.

Acting Assistant Secretary.

Letter sent to all chairmen.

X-1668a

C A M P A I G N   F O R   N E W   P A R   P O I N T S

REPORT OF FEDERAL RESERVE BANKS, AUGUST 31, 1919.

Federal Reserve Bank of	National Banks in District	State Bank Members	Total Member Banks	Nonmember Banks on Par List	Ratio of Nonmember Banks on Par List to total nonmember banks in District	No. of Banks added to Par List during August, 1919	No. of Banks added to Par List since Jan.1, 1919.	No. of nonmember banks not on Par List	Total No. nonmember banks in District
					%				
Boston	393	36	429	241	100	-	-	-	241
New York	628	113	741	317	100	-	-	-	317
Philadelphia	633	37	670	408	100	-	-	-	408
Cleveland	748	87	835	953	87.3	49	282	139	1,092
Richmond	530	42	572	395	27.6	21	121	1,038	1,433
Atlanta	366	61	427	346	21.7	15	96	1,245	1,591
Chicago	1,047	317	1,364	3,168	76.2	39	767	988	4,156
St.Louis	467	61	528	1,706	65.1	107	694	913	2,619
Minneapolis	818	78	896	1,481	51.7	133	312	1,385	2,866
Kansas City	979	35	1,014	2,501	76.8	139	320	755	3,256
Dallas	631	117	748	334	27.4	24	165	885	1,219
San Francisco	571	109	680	915	85.8	9	---	151	1,066
Total	7,811	1,093	8,904	12,765	63.0	536	2,757	7,499	20,264

FEDERAL RESERVE BOARD
WASHINGTON

SEPTEMBER 5,1919.

X-1669.

INDEX - DIGEST

of

PART III

of the

ANNUAL REPORT
of the
FEDERAL RESERVE BOARD
for 1918

Covering Recommendations of the

FEDERAL ADVISORY COUNCIL

Washington,
September 8, 1919.

-A-

Figures at the right hand side indicate the number of the page in the 1918 Annual Report on which the reference appears.

Acceptances - continued.

outstanding acceptances do not exceed 100% of their capital and surplus.

April 20,1915. 773,774.

Basis of.

Farm loan bonds should not be permitted to serve as basis of acceptances, as provided in Hollis bill .

November 16,1915. 787

Call loans.

Preferential rate for call loans secured by acceptances, approved.

September 17,1918. 861

Capital and Surplus.

Ratio of acceptances to, approved for present at 6 to 1.

November 19,1918. 867

Crops.

Conservative bankers indisposed to finance movement of crops through bankers acceptances.

September 17,1918. 862

Development of open market.

Should be encouraged by giving banks greater acceptance power.

May 21,1918. 861

Against use of, for financing their movement of crops.

September 17,1918. 862

Preferential rates for call loans secured by, approved.

September 17,1918. 861

No further steps needed at present time.

November 19,1918. 866.

Should be made available as reserves for owning bank on day of maturity and payment, through Gold Settlement Fund.

November 19, 1918. 970

Discount or Purchase.

Acceptances based on movement of goods or merchandise between foreign countries are eligible for.

April 20,1915. 774

Discount or purchase of own acceptances.

Necessary at times, pending further development of open market, although not in accord with best banking principles.

November 20,1917. 848

Discount rates for acceptances.

Regulated by bank deposit and call loan rates.

May 16,1916. 802

Foreign rates also must be considered.

May 16,1916. 802

May be regulated or controlled through purchase of domestic bankers acceptances.

September 18,1916. 806

Acceptances. continued.

Explanation of low discount rates for acceptances.
May 16,1916. 801

Dollar exchange.
Acceptances for furnishing dollar exchange may later have to be extended to countries other than Central and South America.
November 20,1916. 866

Domestic.
Federal Reserve Banks should not purchase the acceptances of merchants and manufacturers under present financial and business conditions.
April 20,1915. 774,775.
Federal Reserve Banks should purchase, only from member banks with their endorsement.
April 20,1915. 776
General discount rates may be controlled by purchase of domestic bankers acceptances.
September 18,1916. 806.

Draft, New. Sec. 13 Acceptances.

Approved. November 20,1916. 817,818.

European money centers.
Rates in, must be considered in fixing discount rates on acceptances.
May 16,1916. 802

Farm loan bonds.
Should not be permitted to serve as basis for, as provided in Hollis bill.
November 16,1915. 787

Foreign Countries.
Acceptances based on movement of goods or merchandise between foreign countries are eligible for discount or purchase.
April 20,1915. 774

Foreign Acceptances.
European discount rates.on,must be considered in determining discount rates.
May 16,1916. 801, 802
Power to accept up to 200% should be given to national banks.on purely foreign transactions.
November 19,1918. 869,870.

Hollis Bill:
Provisions of, permitting farm loan bonds to serve as basis for acceptances should be striken out.
November 16, 1915. 787

Indorsement by member banks.
Bankers acceptances of member banks or those endorsed by member banks only should be purchased.
December 24,1914. 765
Jan. 19, 1915 767
April 20,1915 773, 774
Nov, 16. 1915 789

Acceptances. continued.

Indorser, Liabilities as.

An accepted bill actually owned by a national banking association and rediscounted at home or abroad should be added to exceptions in U.S. Revised Statutes. Sec. 5202, as amended by Sec. 13, Federal Reserve Act.

November 20, 1916. 818

Limitations on acceptance power.

Provision of Senate bill fixing a limitation on acceptances for any one person etc., to 20% of capital and surplus should be stricken out.

April 18, 1917. 828

Limitations on power to purchase acceptances.

Should be confined to acceptances of member banks or to acceptances indorsed by member banks.

December 24, 1914. 765
January 19, 1915 767
April 20, 1915 773, 774, 776
November 16, 1915 789

If extended to State banks and bankers should be limited to those whose issue of acceptances does not exceed 100% of capital and surplus.

April 20, 1915. 773, 774

Federal Reserve Banks should not purchase domestic acceptances of merchants and manufacturers under present business and financial conditions.

April 20, 1915. 774, 775

Should be confined toacceptances conforming to limitations of Sec. 13. Federal Reserve Act as to discounts.

(a) must grow out of exports or imports.
(b) have not more than three months to run.
(c) should not exceed 50% of capital and surplus of bank for which purchased.

January 19, 1915 767, 768
April 20, 1915 773, 774

Liquidating, self.

See Infra. Renewal agreements.

Maturity.

Should be made available as reserves to owning bank on date of maturity and payment, through the Gold Settlement Fund.

November 19, 1918. 876

Member banks.

Purchase of acceptances should be confined to those of or indorsed by.

Nov. 16, 1915 789
December 24, 1914. 765
January 19, 1915 767
Apr 20 1915 773, 774

Acceptances. (continued)

Negotiability.
Should contain no statements of detail which might affect.
December 24, 1914. 765

One hundred per cent.
Clause omitted by error from Act of September 7, 1916, permitting acceptances up to, should be restored.
February 19, 1917. 822

Open market.
See Infra, Development etc.,
Purchase of own acceptances.

Own acceptances, discount or purchase of.
Necessary at times until open market further developed, but not in accord with best banking practice.
November 20, 1917. 848

Payment.
Should be available as reserves to owning bank on day of maturity and payment, through the Gold Settlement Fund.
November 19, 1918. 870

Power of acceptance.
Should be given greater power.
May 21, 1918. 861

Up to 200% of capital and surplus in purely foreign transactions.
November 19, 1918. 870

Preferential discount rates.
On call loans secured by bankers acceptances, approved.
September 17, 1918. 861

Purchases of acceptances.
See Supra. Limitations of power etc.

Purchase of own acceptances.
May be necessary until further development of open market but is not in accord with best banking practice.
November 20, 1917. 848

Ratio.
Acceptances to capital and surplus. Six to one reasonable at present time.
November 19, 1918. 867

Regulations of Federal Reserve Board on, approved.
December 24, 1914. 765

Acceptances. continued.

Renewal agreements.
Revolving acceptance credits with renewal agreements even if technically eligible are not self liquidating and not within spirit of Federal Reserve Act.
November 20, 1916. 816

Revolving credits.
See Supra. Renewal agreements.

Reserves, available as.
Should be made available as reserves to owning bank on day of maturity and payment, through the Gold Settlement Fund.
November 19, 1918. 870

Section 13. Federal Reserve Act.
New draft of Federal Reserve Board on acceptances approved.
November 20, 1916. 817

Liability as indorser on accepted bills owned by national banks and rediscounted at home or abroad should be added to exceptions under U.S. Revised Statutes, sec 5202, as amended by section 13, Federal Reserve Act.
November 20, 1916. 818

Self-liquidating.
See Supra. Renewal agreements.

Senate bill No. 8259.
Provisions of, limiting acceptances to one person etc., to 20% of capital and surplus, should be stricken out.
April 18, 1917. 828

State banks and trust companies.
If Federal Reserve banks are permitted to purchase acceptances of, which council does not approve, should be permitted only in cases when their outstanding acceptances do not exceed 100% of their capital and surplus.
April 20, 1915. 773, 774.

Statements.
Acceptances should contain no statements of detail which might affect negotiability.
December 24, 1914. 765

Two hundred per cent.
Amendment approved. For purely foreign transactions.
November 19, 1918. 869 870

U.S. Revised Statutes. Sec. 5202,

U.S. revised statutes, Sec. 5202, as amended by Sec. 13, Federal Reserve Act., should be further amended by adding the following as an additional exception:-

"Liability as indorser on accepted bills actually owned and rediscounted at home or abroad."
November 20, 1916. 818

Account, Collection or Exchange.
See Hayes bill.

Act of September 7, 1916.
Change should be made of error in dropping out power to accept up to 100% etc.
February 19, 1917. 822

Actually owned.
See U.S. Revised statutes. Sec. 5202

Admission of State banks.
See State Banks.

Advice, immediate.
See Federal Reserve Exchange drafts.

Advice, on.
See Federal Reserve Exchange drafts.

Agencies, Federal Reserve Branch.
See Amendments; Sec. 3

Agencies, foreign.
See foreign agencies.

Agents, Approved reserve.
See Reserves, Excess.

Agents, Fiscal.
See U.S. Bonds.

Agreements, Revewal.
See Bankers Acceptances,
Revolving credits.

Allies of enemies.
Commercial and foreign exchahge.

See: Secretary of Treasury.

Amendments.

1. Clayton Anti-Trust Act.
Interlocking directors. Draft.
February 16, 1916. 799

2. Comptroller of Currency.
Absorption of office in Federal Reserve Board favored.
November 16, 1915. 785

3. Federal Reserve Act.
Revises recommendations of February 19, 1917, and approves draft of amendments prepared by Federal Reserve Board, except that relating to Section 22.
April 18, 1917. 830 to 838.

Federal Reserve Act. continued.

3. Section 2.

Recommends reduction of 2/3 of paid in capital stock of Federal Reserve Banks. Rate 6 to 3.

Negative, Wing, Ardrey and Rowe.

November 16, 1915. 786

Subscribed capital and double liability should not be changed.

November 16, 1915. 786

Reverses its opinion and advises against reducing paid in capital stock.

Approves mutual savings banks as associate members.

February 19, 1917. 823

Section 3.

Approves amendment to Sec. 3 in Sec. 700 of H.R. 20661 giving right to establish branch agencies of Federal Reserve Banks instead of branches whenever advisable.

February 19, 1917. 824

Section 4. Approved amendment taking away from the Chairman of the Board of each Federal Reserve Bank the duty of classifying the member banks into groups for the purpose of electing directors and placing this duty upon the Federal Reserve Board, striking out the provision that the groups shall consist as nearly as may be, of banks of similar capitalization.

February 19, 1918. 853, 854

Approves creation of office of Assistant Federal Reserve Agent and abolishment of office of Deputy Federal Reserve Agent, and advises that the clause limiting the powers of the Assistant Federal Reserve Agent to "absence or disability" of theFederal Reserve Agent be stricken out.

February 19, 1917. 823

Section 7.

Approves change in law permitting surplus fund to accumulate up to 100% of the paid in capital stock.

November 19, 1918. 869

Section 9.

Disapproves suggestion that state banks in existence November 16, 1914, but not having requisite capital to become national banks, be admitted to the Federal Reserve System.

November 20, 1917. 849

Section 11.

Approves amendment permitting Federal Reserve Board to modify reserve requirements of State member banks, until June 1, 1919, whose state laws do not permit reserve balances with Federal Reserve banks to be counted in lieu of state reserve requirements.

February 19, 1918. 858

Amendments. continued.
Federal Reserve Act. continued.

Section 13. Approves new draft. Acceptances.
November 20, 1916. 817

Approves restoring power to accept up to 100% etc., omitted by error from amending Act of September 7, 1916.
February 19, 1917. 822

Approves increasing acceptance power of national banks.
May 21, 1918. 861

Approves giving acceptance power up to 200% of capital and surplus as to purely foreign transactions.
November 19, 1918. 870

Above limit of 200% should include acceptances of foreign banks or bankers for account of and under guaranty of member banks, and should be in addition to the power to give domestic acceptances.
November 19, 1918. 870

Disapproves suggestion of an amendment permitting rediscount of notes secured by Railroad and industrial bonds.
November 20, 1917. 849

Section 16. Issue of Federal Reserve notes against gold etc., Approved. Vote 6 to 3.
Negative, Wing, Ardrey, Rowe.
November 16, 1915. 785, 788
Unanimous February 19, 1917 819

Approves making Federal Reserve notes legal reserves in vaults of member banks.
November 16, 1915. 785, 786, 788

Cost of printing Federal Reserve notes should be borne by government. Vote 6 to 3.
November 16, 1915. 786, 788

Federal Reserve notes should be issued in place of gold certificates which should be retired.
February 19, 1917. 825

Approves Federal Reserve notes in higher denominations.
February 19, 1918. 854

Section 17. Requirement of minimum deposit of U.S. Bonds by national banks with Treasurer of U.S. should be repealed.
February 19, 1917. 822

Section 18. Approves amendment providing for exchange of U.S. 2% bonds

Amendments. continued.

Federal Reserve Act. continued.

Section 18. for U.S. 3% bonds, instead of for one half U.S. 3% bonds and one half U.S. 3% one year Treasury notes.
November 20, 1916. 819
February 19, 1917. 823

U.S. 3% one year Treasury notes should be abolished.
February 19, 1917. 823

Section 19. Disapproves power to be given to Federal Reserve Board to fix lower reserves for banks in outlying districts of reserves and central reserve cities.
November 20, 1917. 849
February 19, 1918. 855

Unwise at present time to change present reserve requirements of 13, 10 and 7% although they may be unjust to some cities.
February 19, 1918. 852

Section 22. Disapproves draft of amendment prepared by Federal Reserve Board as to directors fees etc. and submits proposed draft approved by it.
February 19, 1917. 821
April 18, 1917. 830 to 838

Section 24. Suggests broadening powers of national banks to permit loans on improved farm land, within 100 miles from office of bank making the loan.
November 16, 1915. 786.

Section 25. Favors joint ownership by national banks of stock of banks organized under state or Federal charter, principally engaged in international or foreign banking etc.
November 16, 1915, 786
February 15, 1916. 798.

Approves giving national charters to such banks.
February 19, 1918. 855
May 21, 1918. 859

4. Income Tax.

Undistributed profits of Federal Reserve Banks should be subject only to the normal tax.
September 17, 1918. 864

Approves bills of National Dry Goods Association providing for a reasonable allowance on inventoried merchandise for increased cost of product over average cost of the pre war period.
September 17, 1918. 865

National Bank Act.

Favors brenches of in national banks in same city.
September 21, 1915 783
November 16, 1915 786
Feb. 19, 1917 822 November 20, 1916. 816

Amendments. continued.

National Bank Act. continued.

Should be allowed in all states even though some do not permit branches of state banks etc.

February 19, 1917. 822

Favors branches in cities or counties.

February 19, 1918. 858

Minimum deposit U.S. Bonds. As amended by Sec. 17 Federal Reserve Act.

Should be repealed.

February 19, 1917. 822

See also: Guaranty of deposits.

Public Utility Rates.

Should be fixed by a national Board appointed by the President.

September 17, 1918. 863

Secretary of Treasury.

Council approves report of an informal committee to, concerning limitation of unnecessary imports, regulation of gold exports, control of foreign exchange transactions, earmarking of gold etc., dated September 13, 1917.

September 18, 1917. 844

(For report, see Page 844)

Trading with Enemy Act.

Should be amended to give Federal Reserve Board power over gold exports until six months after Peace is declared.

November 19, 1918. 868

U.S. Revised Statutes. Sec. 5153

Favors broadening of, so that state member banks may receive government deposits.

September 17, 1918. 864

U.S. Revised Statutes. Sec. 5202

To the exceptions to rule stated in, limiting liabilities of national banks, there should be added a clause excepting from its provisions the liability as endorser on accepted bills of exchange actually owned by the Association and rediscounted at home or abroad.

November 20, 1916. 818

War Finance Corporation Act.

The director of, should be permitted to deal direct with borrowers without the intervention of banks.

September 18, 1918. 863

See also: Clayton Act.
Foreign branches
National Bank Act.
National Banks
Trade Acceptances.

Anticipation of last reserve payment.

Disapproved at present time.
Vote 6 to 3.
November 16, 1915. 787
Favored. November 20, 1916. 817
See also. Reserves: Anticipated.

Anticipatory U.S. Certificates.

See U.S. Bonds.

Anti Trust Act, Clayton.
See Amendments: Clayton Act.

Arbitrage of Exchange.
May be necessary to prevent, as far as possible in conjunction with other Nations, as laid down in report of informal committee to Secretary of Treasury.
September 18, 1917. 843, 847

Ardrey.
Voted against cost of Federal Reserve Notes being paid by government.
November 16, 1915. 786
Voted against reduction of paid in capital of Federal Reserve Banks.
November 16, 1915. 786
Voted against issue of Federal Reserve Notes against gold etc.
November 16, 1915. 788

Assistant Federal Reserve Agent.
Favors creation of office of, Power, however, should not be limited to absence or disability of Federal Reserve Agent.
February 19, 1917. 823

Atlanta District.
Advise no change in discount rates.
Preferential rates in collateral loans and commodity rates, and purchase of domestic bankers acceptances will bring about any changes needed.
September 18, 1916 806

Excess reserves in banks of District are normal.
September 18, 1916. 806

Attorneys fees.
See: Amendments: Sec. 22

Availability, deferred.
See: Charges. Sec. 16

Availability, Immediate.
See. Federal Reserve Exchange drafts.
Record 7T.J.

Banking Corporations, Foreign
See Amendments : Sec. 25
Foreign Branches

Banks.
Accepting for foreign countries. See Dollar Exchange
Amendment. Acceptances up to 200%.
See Acceptances: Foreign
Amendments : Sec. 13
Engaged in foreign banking.
See Amendments: Sec. 25
Foreign banking.
Examination of.
See National bank examiner.
Foreign.
See Amendments: Sec.25
Foreign banking
Foreign branches
Investment in Public Utility securities.
See Public Utility securities
Limitations on
See Acceptances: Limitations

Mutual Savings. See Amendments: Sec. 9
Bank deposits
Deposits
New grouping of. See Amendments: Sec. 4

Tax. Undistributed profits.
See Amendments: Income tax.
Up to 100%. Acceptances
See Acceptances: Act of Sept.7 , 1916.

Bidding, competitive
See Clayton Act.

Bill, War Finance Corporation.
See War Finance Corporation.

Bills of Exchange
See Acceptances
Domestic Acceptances
Hayes Bill

Bills, Small
Bureau of Engraving and Printing should expedite printing of.
Sept. 18, 1917. 848

Bond issues, supervision of
See Capital Issues Committee

Bonds, Corporate and R. R.
See Savings banks.

Bonds, Industrial
See Industrial bonds.

- C -

Call loans.
Approves preferential rate on, secured by Acceptances of Banks and bankers.
Sept. 17, 1918. 861
See Acceptances: Call loans

Canada
Makes no recommendation as to permitting gold exports to, as exchange relations are in process of satisfactory adjustment
Nov. 20, 1917. 850.

Capital and bond issues.
Supervision over.
See Capital Issues Committee.

Capital and reserve deposits.
Impracticable to estimate what portion of, should be invested to earn expense and dividend requirements.
Feb. 15, 1916. 795

Capital and Surplus.
See Amendments: Sec. 13

Capital and surplus. Ratio of acceptances to.
Six to one held reasonable for the present.
Nov. 19, 1918. 867

Capital Issues Committee.
Supervision of capital and bond issues by, approved.
Feb. 19, 1918. 853
Supervision of bank loans for capital purposes by, approved.
Sept. 17, 1918. 864.

Capital Stock, Paid in. Federal Reserve Banks.
Voted that, should be reduced by two-thirds but that unpaid subscriptions and double liability be left unchanged.
Negative: Wing, Ardrey, Rowe
Nov. 16, 1915. 786
Voted, should not be reduced
Nov. 15, 1916. 795
Negative: Swinney, Jaffray, Forgan
Minority reports. Feb. 15, 1916. 795

Capital Stock. Paid in
Ratio of surplus to
See Surplus fund

Carriers, common
See Clayton Act

Cash, Vault
See Reserves

Chicago District. (Continued)

Resolution of Federal Reserve Bank of Chicago: (Continued)

2. Tendency to put commercial deposits to time deposits to reduce reserve requirements is dangerous.
April 20, 1915. 776

Circular No. 3. Series 1915. Regulation B. 1915.

Federal Advisory Council submits with some alterations to meet its views, as to certification of eligibility, credit files and credit information.
Jan. 19, 1915. 768,769,770

Circulation

See Federal Reserve Notes

Cities, Reserve and Central Reserve

See Deposits
Federal Reserve Cities
Reserve Cities

Cities, Reserve and Central Reserve

Outlying districts. Reserves
See Amendments: Sec. 19
Reserves

Class A & B Directors.

Election of, New grouping of banks
See Amendments: Sec. 4

Class C Directors

Abolishment of Deputy Federal Reserve Agent
Creation of Assistant Federal Reserve Agent
See Amendments: Sec. 4

Classification of member banks.

Election of directors
See Amendments: Sec. 4

Classification of deposits

See Reserves

Classification of Reserve and Central Reserve Cities

See Federal Reserve Cities
Reserve Cities

Clayton Anti-Trust Act.

Suggests amendment permitting one interlocking director in a National and State bank, and making private bankers so eligible.
Sept. 21, 1915. 783
Nov. 16, 1915. 786

Approves amendment submitted by Federal Reserve Board
Feb. 16, 1916. 799

Advises rule that bank loans having not more than 2 years to run, be exempted from necessity for competitive bidding. Asks that Federal Reserve Board take this up with Interstate Commerce Commission.
May 16, 1916. 803, 804.

Clearing balances.
See Hayes Bill

Clearing House balances.
See Reserves: Optional
" : Vault

Clearing System.

Allowance, Time
See Infra, checks 5

Availability, Deferred
See Infra, charges Sec.13

Balance, compensatory
See Infra, checks 7 Hayes Bill

Balances, excess
See Infra, checks 4

Charge.
Not advisable to allow member banks in smaller cities or towns having no clearing house, to charge even a moderate fee for collecting checks on State banks.
Nov. 20, 1916. 817

Charge, Exchange
See Infra, collectible at par.

Charge, Handling
See Infra, collectible at par.
Charges. Sec. 13

Charges, Per item
See Infra, Per item charge

Charge per $1,000
See Infra, Per item charge

Charges. Sec. 13
If this section authorizes the Federal Reserve Board to regulate charges made by member banks against their customers for out of town checks deposited which are collected through the Federal Reserve Bank, it is the duty of the Board to regulate them.
The Board should base such regulation on the principle, already recognized by it as fair and equitable, - that member banks are entitled to charge to their customers the cost of handling such items plus interest at a reasonable rate for the period of deferred availability of the funds or items collected through the Federal Reserve Bank.
Sept. 18, 1916. 811

Checks:
1. Drawn upon member or Federal Reserve Banks of other Districts can only be received on deposit under Sections

Clearing System (Continued).

Checks (Continued).

13 and 16, by a Federal Reserve Bank when remitted by another Federal Reserve Bank solely for exchange or collection purposes.
Jan. 18, 1915. 766, 767

2. Should not be charged by a Federal Reserve Bank to the reserve account of a member bank without its authority and without its having an opportunity to pass upon them.
Jan. 18, 1915. 767

3. Can not have an effective clearing system over whole country until it is possible to collect checks upon non member banks.
Feb. 15, 1916. 793

4. Found impracticable in operating the recently abandoned voluntary system, involving immediate debit and credit, for member banks, especially in Reserve Cities, to maintain the necessary excess balances to protect an unknowable amount of checks coming into the hands of the Federal Reserve Banks.
Sept. 18, 1916. 811

5. Federal Reserve Banks should not be required to receive for immediate credit(funds to be immediately available) checks drawn on member banks maintaining excess balances, thus abrogating the time allowance now in force against such checks.
The present system of deferred credits should be tried out on its merits before even a partial return to the old system.
Sept. 18, 1916. 811

6. Inadvisable to allow member banks in smaller cities or towns having no clearing house to charge even a moderate fee for collecting checks.
Nov. 20, 1916. 817

7. Approval of clearing membership for banks too small to enter Federal Reserve system provided they keep with the Federal Reserve Bank a compensatory balance and remit at par on checks on themselves.
Feb. 19, 1917. 821

8. Disapproval of Hayes Bill. Tax on
See Infra, Hayes Bill

Clearing House.
See Supra, Checks 6
Clearing privileges

Clearing members.
See Supra, Checks 7
See Infra, Hayes Bill

Clearing privileges.

Nonmember banks should not have, unless members of the clearing house, if any, in city or town of location.
Nov. 19, 1918. 870

Clearing System (Continued)

Compensatory balance
See Supra, Checks 7

Collectible at Par
The legend on many checks "collectible at Par" through the Federal Reserve Bank of ______, is misleading as they are subject to the handling charge of the Federal Reserve Bank and in many cases to a charge of the bank receiving them. The words "At Par" should be stricken out.
Sept. 18, 1916. 814

Cost of handling items.
See Supra, Charges: Sec. 13

Credits, Deferred
See Supra, Checks 5

Credit, Immediate
See Supra, Checks 4, 5.

Customers, Charges against
See Supra, Charges, Sec. 13

Debit and Credit, Immediate
See Supra, Checks 4.

Deferred availability
See Supra, Charges, Sec. 13

Deferred Credits
See Supra, Checks 5.

Deposits
See Supra, Checks 1.

Distance, Disregard of
Disregard of elements of time and distance now being attempted by some Federal Reserve Banks may so involve and absorb the funds of the Federal Reserve Banks as to seriously impair their usefulness as banks of issue and deposit.
Jan. 18, 1915. 767

Excess balances
See Supra, Checks 4.

Exchange charge
See Supra, Collectible at Par

Exchange purposes
See Supra, Checks 1.

Clearing System (Continued)

Federal Reserve Banks.
See Supra, Distance, Disregard of collectible at par.
See Supra, Hayes Bill
" " Collectible at par.

Federal Reserve Board
See Supra, Charges, Sec. 13

Federal Reserve Districts.
See Supra, Checks, 1.

Handling charge
See Supra, Collectible at par
Charges, Sec. 13

Hayes Bill
Disapproval of Hayes Bill which imposed a tax on checks paid which bear the endorsement of or are collected through any other bank, etc. located outside of the State in which the checks are made payable, the tax not to apply to any Federal Reserve Bank, member bank, or nonmember clearing member, etc.
April 18, 1917. 828

Immediate debit and credit.
See Supra, Checks, 4

Immediate credit.
See Supra, Checks, 4, 5

Indorsement.
See Supra, Hayes Bill

Interest.
See Supra, Charges, Sec. 13

Intra-district clearings
Should not be made mandatory
Sept. 21, 1915. 783

Items.
Member banks under new clearing system can not practically maintain necessary excess balances in Federal Reserve Banks to protect checks coming into hands of Federal Reserve Banks, as volume of items is much greater than under the recently abandoned voluntary system under which it could not be done.
Sept. 18, 1916. 811
See also Supra, Charges, Sec. 13

Items, Cost of handling
See Supra, Charges, Sec. 16

Mandatory
Intra-district system should not be made
Sept. 21, 1915. 783

Clearing System (Continued)

Time allowance

See Supra, Checks 5

Voluntary clearing system

See Supra, Checks 4.

See also, Federal Reserve Exchange Drafts

Federal Reserve Banks

Sections 13 and 16, Federal Reserve Act

Cleveland District.

Discount rates

No change recommended,

Sept. 18, 1916. 806

Excess reserves are nominal,

Sept. 18, 1916. 805

Collateral Notes.

Preferential rates on, commodity rates and purchase of domestic bankers acceptances will control discount rates. No change recommended by Atlanta for this reason.

Sept. 18, 1916. 806

Rates on, should be same as for rediscount of 10 day commercial paper.

Sept. 18, 1916. 809

Collectible at Par.

See Clearing System

Collection.

See Clearing System

Collection Account

See Hayes Bill

Commercial Credits.

See Conservation of Credit

Commercial letters of credit.

See Comptroller of Currency

Commercial Deposits.

See Reserves

Commercial Paper.

Suggested changes in Circular 3, Series 1915, Regulation B.

Jan. 19, 1915. 768

Commission, Federal

See Railroad

Savings Banks.

Credit Files.

-D-

Dallas.

Discount rates.

15 day rate fixed at $3\frac{1}{2}\%$

Low rates in trade acceptances should continue.

September 18, 1916. 808

Excess reserves.

Are normal.

September 18, 1916. 808

Dealings in securities.

See Clayton Act.

Deferred availability.

See Charges: Sec. 16

Deferred credit.

See Clearing System.

Deficient reserves

Advises imposition of a penalty for.

April 20, 1915. 775

Delano, F.

To see Forgan. March 5, 1915.

Rediscounts between Federal Reserve Banks.

Asks suggestions as to proper rate of discount. 771

Forgan to Delano. March 7, 1915.

1. Rediscounting Federal Reserve Bank should raise its discount rate in its district 1% above rates in the districts which are to rediscount its paper, but should pay to the rediscounting Federal Reserve Bank its current rate.
2. Proper that it should make profit because of its endorsement.
3. If the need for rediscounting is caused by a falling off of its deposits or reserve resources and the other Federal Reserve Banks have similar conditions, the discounting Federal Reserve Bank should make no profit by rediscounting, but should supply its indorsement without profit.
4. All Federal Reserve Banks should be allowed to pro rate in giving rediscounts.
5. Would be willing to have the business transacted through Federal Reserve Banks of New York and have their accounts charged by it with their pro rata share.
6. These are my personal views. 772

Reaffirmed. September 21, 1915. 783

Delano, F.

Forgan to, May 21, 1915.

Suggestions as to proposed draft of state bank regulations. 780

Demand deposits.

See reserves.

Demand Loans.
Preferential rates on, securee by acceptances, approved.
September 17, 1918. 861

Denominations.
See Federal Reserve Notes.

Deposit, Minimum. U.S. bonds with Treasurer of U.S.
See Amendments. Sec. 17

Depositary banks.
See Federal Reserve Banks.

Depositor.
See Sections 13 and 16. Federal Reserve Act.

Depositors, Insurance or Guaranty relief for.
See. Sen. Bill 9
" " 742

Deposits.
Bank.
Larger reserves required in reserve and central reserve cities because they receive.
May 16, 1916. 800
All banks receiving, should maintain 15% reserves.
May 16, 1916. 800
See also: Acceptances.

Character of,
See Reserves
Classification of.
See Reserves
Demand 788
See Reserves
Government,
See Government deposits.
Guaranty of,
Disapproved.
April 18, 1917. 842
May 21, 1918. 861
Some plan for prompt relief might be devised by Federal Reserve Board.
April 18, 1917. 842
Insurance of.
See Supra.
Guaranty.
Senate Bill 9
" " 742.
Interest on.
See: Interest on deposits.
Pyramiding of.
Impossible to prevent but causes inflation of bank deposits.

Discount Policy. continued.

except through open market powers, to check expansion. Cause of expansion is the large surplus in the banks. On November 10, 1915 the excess reserves of national banks were 891 millions. February 15, 1916. 790

Discount rates.

Acceptances. Reasons for low rates on.
May 16, 1916. 801

Between Federal Reserve Banks.
See: Delano, F.

Changes recommended. (See also Infra, increase)
Boston. No change.
New York. Ten day rate should be changed to 15 days.
Philadelphia. No change.
Cleveland. No change
Richmond No change
Atlanta No change
Chicago No change
St. Louis No change 15 day rate established in place of 10 day.
Minneapolis No change
Low Federal Reserve Bank rates lead some small banks to unduly increase loans.
Kansas City.
Should not be lowered, would encourage inflation.
Dallas
15 day rate fixed at 3½%. Low rates in trade acceptances should be continued to encourage them.
San Francisco. No change.
September 18, 1916. 808
See Infra. Increase in rates.

Collateral notes.
Should take same rate as 10 day commercial paper.
September 18, 1916. 809

Commercial open market rates.
Federal Reserve Bank rates have been kept above.
February 15, 1916. 790

Commodity paper.
Against preferential rates on.
September 21, 1915. 781
November 20, 1917. 848
Gov. Seay dissents.
September 21, 1915. 783.
Expansion.
Controlled by raising.
September 18, 1917 843
Federal Reserve Banks, between.
See: Delano, F.

Discount rates. continued.

Fixing of.
Suggestions and recommendations should be initiated by directors of Federal Reserve Banks.
September 21, 1915. 781

Gold. market.
Development of, regulated by discount rates.
November 19, 1918. 869

Increase of.
Looks for higher rates. February 19, 1917. 824
Advises increase of from ½ to 1 % on both discounts and purchases.
November 20, 1917. 851
No immediate necessity for increase. May be later as discounts increase.
February 19, 1918. 852

Advises no increase or change.
May 21, 1918. 861
Advises against increase.
September 18, 1918. 864

Contraction by means of increased rates, as an after war policy would injure domestic business.
November 19, 1918. 867
Should be as liberal as is consistent with safety.
November 19, 1918. 867

Liberty Loan, 3rd.
Interest rates suggested.
February 19, 1918. 852

Liberty Loans.
Preferential rates on loans secured by U.S. bonds should be continued.
November 20, 1917. 848
February 19, 1918. 852.
September 18, 1918. 864

Preferential rates.
See; Supra.
Commodity paper.
Liberty Loans.

Public utility corporations. See same.

Rediscount rates. Between Federal Reserve Banks.
See: Federal Reserve Banks.

War paper.
See: Supra.
Liberty Loans.

Districts, outlying. Reserves.

See: Amendments Section 19.
Reserves.

Dividend requirements.

See: Capital and reserve deposits.

Dividends, Cumulative. Federal Reserve Banks.

Temptation to increase investments.
February 15, 1916. 796

Dollar Exchange.
Rather doubts practicability of employing expert to study and investigate. February 19, 1917. 826
Should be stabilized in neutral countries such as Sweden, Holland, Switzerland and Spain, provided does not involve an undue shipment of gold.
November 20, 1917. 850
See Acceptances.
Gold.

Dollar Exchange Drafts.
Privilege of drawing, may have to be extended to other countries than Central and South America, under developments of peace conditions. No necessity now.
November 19, 1918. 866

Domestic Acceptances.
Should be purchased only from member banks with their indorsement.
May 21, 1915. 776
Proposed extension to 200% of capital and surplus for bankers acceptances in purely foreign transactions.
Should be in addition to power of giving.
November 19, 1918. 870
See also: Atlanta.

Domestic Exchange Drafts.
See: Federal Reserve Exchange Drafts.

Drafts
See: Dollar exchange drafts.
Federal Reserve Exchange drafts
Hayes Bill.

Double liability of stock holders.
Should not be changed if paid in capital of Federal Reserve Banks be reduced.
November 16, 1915. 780

E

Earmarking of gold.
Steps should be taken to prohibit our banks in the future from earmarking gold or taking it into custody.
Sept. 18, 1917. 847

Eligibility, certification of.
Changes suggested in draft of Federal Reserve Board.
Regulation B. 1915
Jan. 19, 1915. 769

Eligible.
See: Foreign banks.

Embargo, Gold.
See: Gold.

Enemies, Allies of.
See: Secretary of Treasury; Committee on Foreign Exchange.

England.
See: Great Britain.

Enterprise, Taxation on.
See: Taxation, Government.

Essential and nonessential credits.
Not feasible to lay down any general rule of differentiation.
Sept. 17, 1918. 852

European central banks.
See: Gold.

European War.

Impossible to predict business conditions following.
Nov. 16, 1915. 785

Examiners Reports.
Should be shown to directors.
Nov. 16, 1915. 785

Examinations of state banks,
Should be made under direction of Federal Reserve Board and not by Comptroller of Currency.
Nov. 16, 1915. 785

Excess profits tax.
See: Taxation.

Excess reserve balances.
See: Clearing system.
Reserves.

Exchange account.
See Hayes Bill.

Federal Reserve banks, continued.

Federal Reserve Banks, continued.

Policy, Peace.

See: Supra,

Credit contraction.

Reserves.

No portion of deposit reserves held in foreign countries by foreign branches of national banks should be required to be kept in Federal Reserve banks.

Nov. 19, 1918. 866, 867.

Should maintain strong reserves.

Nov. 16, 1915. 787

Rediscounts between F. R. banks.

Forgan gives personal opinion that rediscounting bank should increase the rates up to 1% above that of the Federal Reserve bank giving the discount; that all banks should be allowed to participate, that all rediscounts might be transacted through F. R. Bank of New York.

Mar. 7, 1915. 772

Reaffirmed by Council.

Sept. 21, 1915. 783

See also: Delano, F.

Surplus.

Surplus should be increased to 100% of paid in capital.

Nov. 19, 1918. 869

U. S. Subtreasury.

Functions of, should be given to Federal Reserve banks so they can furnish gold and currency in required denominations.

Sept. 18, 1916. 809

Functions of, except handling of the trust funds, should be transferred to.

Feb. 19, 1917. 825

If such functions are transferred, the question of interest is not material, as all profits over 6% dividend and surplus goes to U. S. Treasury.

Feb. 19, 1917. 825

The trust funds, gold and silver, should not be transferred.

Feb. 19, 1917. 825

United States Treasury.

Should supply Federal Reserve banks with U. S. notes, Treasury notes and silver certificates in desired denominations.

Feb. 19, 1917. 825

Federal Reserve banks, continued.
U. S. Treasury, continued.
See also: Hayes Bill.
National bank examiners report.

Federal Reserve Board.
Amendments.
Approval of amendments suggested by, except Sec. 22.
Feb. 19, 1917. 819
April 18, 1917. 830 to 838

Bankers Acceptances.
Should not take steps to develop open market. Must grow by degrees.
Nov. 19, 1918. 866

Charges for deferred availability.
See Charges, Sec. 16

Conservatism.
Should urge conservatism of credit.
Feb. 19, 1918. 853
May 21, 1918. 859

Criticisms of Federal Reserve Act.
Have heard no material, except such as have been pointed out in annual report of.
May 16, 1916. 800

Comptroller of Currency.
Functions of, should be absorbed by and administered by the Federal Reserve Board.
Nov. 16, 1915. 785

Costs of transfer.
Should have Federal Reserve banks absorb, of currency and securities to and from member banks.
Sept. 17, 1918. 865

Discount policy.
See: Discount policy. F. R. Board.

Examination of state banks, etc.
Should be under direction of Federal Reserve Board.
Nov. 16, 1915. 785

Foreign exchange business.
Should settle attitude towards. Should be one of cooperation with member banks.
Feb. 19. 1917. 826
Unwise to regulate, further than Treasury does now.
May 21, 1918. 859

See: Foreign Exchange.

Gold Exports.

Federal Reserve Board should be given control over embargo on gold for six months after declaration of peace.

Nov. 19, 1918. 868

Action of President in placing control over gold exports in F. R. Board approved.

Sept. 18, 1917. 844

Guaranty of deposits.

Disapproved, but F.R.Board might devise some plan for prompt relief for depositors in failed national banks.

April 18, 1917. 842

Reserves.

Disapproval of suggestion that Federal Reserve Board be given power to increase reserve requirements.

Feb. 19, 1917. 821

Approves power to F. R. Board to modify reserve requirements of state banks, etc. whose state laws do not permit balances with Federal Reserve banks to count as reserves.

Feb. 19, 1918. 858

Approves ruling of Federal Reserve Board that no fixed ratio of reserves be required for foreign branch banks.

Nov. 19, 1918. 866, 867.

Approves ruling of F. R. Board to effect that reserves held by foreign branches of national banks are left to discretion of the parent bank and that no part need be carried in Federal Reserve banks.

Nov. 19, 1918. 866, 867.

Federal Reserve Cities.

Disapproves proposed classification of all Federal Reserve cities as central reserve cities.

Feb. 16, 1916. 791

Availability of drafts.

See Foreign Exchange drafts.

Federal Reserve Districts.

Reserve situation.

See Reserves.

Federal Reserve Exchange drafts.

Disapproval of plan of Federal Reserve Board under which a member bank draws on its F. R. Bank and the draft may be cashed by any Federal Reserve bank on advice from drawee bank, immediate advice to be given by drawer to dmawee Federal Reserve bank.

Reasons for disapproval:

1. Double advice is cumbersome.
2. No profit and considerable expense to drawer member bank.
3. Member banks can now sell N. Y. Exchange and make their checks on N. Y. practically immediately available by offsetting their daily remittances of checks to N. Y. payable through New York Clearing House.

Federal Reserve Exchange drafts, continued.

4. If member banks were required to give the drawee Federal Reserve bank funds immediately to pay the drafts, the F. R. bank might have to receive their checks on New York received from their customers at par for immediate availability, free of service charges.

5. Otherwise New York items would be subject to 2 days deferred availability while drafts on F. R. banks would have to be covered by immediately available funds.

6. The profit of member banks on drafts for exchange purposes, other than the commission, is derived from the interest received on e.g. their N. Y. balances while the drafts are still outstanding.

7. Federal Reserve banks pay no interest, and, therefore, are not in a position to compete and should not compete with their member banks at large financial centers in this legitimate branch of the banking business.

8. Even after all reserve balances are transferred to Federal Reserve banks, many member banks will have to maintain balances for use in domestic exchange and they are entitled to a profit over and above the interest paid them in these balances.

9. The principle is the same as charges for Post Office money orders.
Sept. 18, 1916. 812

Minority report by Record.
Sept. 18, 1916. 812.

If adopted by F. R. Board, drafts should be made payable "on advice" and not "Receivable for immediate availability."
Record votes contra.
Feb. 19, 1917. 827

Federal Reserve Bank notes.
Against U. S. one year gold notes as security for.
Feb. 19, 1917. 823

Federal Reserve notes.
Certificates.

Should take place of gold certificates.

Nov. 16, 1915. 788

Feb. 19, 1917. 825

Should be substituted for silver certificates.
Sept. 18, 1917. 847.

Denominations.
Increase in denominations approved.
Feb. 19, 1918. 854

Expansion.
Not desirable to try to check.
Their issue makes possible expansion incident to war financing.

Federal Reserve notes, continued.
Expansion, continued.
Their issue and redemption respond to trade requirements.
Natural and not artificial methods should control the situation.
Nov. 19, 1918. 865.

Gold.
Held by Federal Reserve Agents as collateral should be counted as part of gold reserve required against.
Feb. 19, 1917. 819, 827, 828, 833.
Should be permitted against deposit of gold, etc.
Wing, Ardrey and Rowe, contra.
Nov. 16, 1915. 785, 788.
Unanimous in favor.
Feb. 19, 1917. 819, 827, 828.

Printing of.
Cost should be borne by Government.
Vote 6 to 3. Nov. 16, 1915, 786, 788.

Reserve, Legal.
Should be legal reserve in vaults of member banks.
Vote 6 to 3. Wing, Ardrey and Rowe contra.
Nov. 16, 1915. 786, 788.
Reaffirmed.
Vote 9 to 1. Rowe contra.
Nov. 20, 1916. 815.

Federal Reserve System.
Reserve requirements.
Power to F. R. Board to increase, would keep state banks out of F. R. System.
Feb. 19, 1917. 821.
State banks.
Disapproves amending Act to permit state banks, etc. which were in existence on Nov. 16, 1914, but which do not have capital large enough to become national banks, to join Federal Reserve System.
Nov. 20, 1917. 849

Fees of directors. Amendment to. Sec. 22.
Draft proposed by Council.
Feb. 19, 1917. 821.

Fiduciary powers, National banks.
Impracticable to formulate general regulations as state laws govern.
Jan. 18, 1915. 765, 766.

Fifteen day rate.
See: Dallas.
New York.
St. Louis.

Foreign Branches.

Federal Reserve Banks.

Disapproved.

Feb. 19, 1917. 824

May 21, 1918. 859

Member banks. Stockholders.

Acceptances.

Should be allowed to accept.

Feb. 15, 1916. 799

Should be eligible for discount with Federal Reserve Banks, if otherwise eligible.

Feb. 15, 1916. 799

Present ratio between acceptances and capital and deposits is reasonable, but may have to be increased later.

Nov. 19, 1918. 867

Capital and surplus.

Present ratio of acceptances to capital and surplus of 6:1 is reasonable but may have to be increased later.

Nov. 19, 1918. 867

Should be empowered to invest a definite percentage of capital and surplus in holdings of foreign banks operating under local charters.

Sept. 18, 1916. 799

Contra.

Forgan, Fleishhacker, Swinney and Record.

799

Deposits.

In U. S. should be limited to deposits incidental to foreign business.

Feb. 15, 1916. 799

No fixed reserves should be required against, in foreign countries.

Feb. 15, 1916. 798

For deposits in United States should be same reserve as for member banks.

Feb. 15, 1916. 798

No fixed ratio of reserves to deposits should be required.

Nov. 19, 1918. 866, 867

Development.

No further steps needed. Nov. 19, 1918. 866

Federal charter.

Favored. Feb. 19, 1918. 855

See Amendments: Sec. 25

Federal Reserve Banks.

Should be allowed to rediscount with, under special restriction

Feb. 15, 1916. 798

No portion of deposit reserves in foreign countries should be required to be kept in.

Nov. 19, 1918. 866, 867

Foreign Branches, continued

Member banks. Stockholders, continued.

Federal Reserve System.

Should be members of, so as to be under jurisdiction of Federal Reserve Board.

Feb. 15, 1916. 798

Foreign banks operating under local charters should have power to invest a definite percentage of capital and surplus in.

Sept. 18, 1916. 799

Liability.

Should not incur double.

Feb. 15, 1916 798

Record, contra. 798

Majority of stock.

Need not be owned by member banks.

Feb. 15, 1916. 798

Member banks.

Need not own majority of stock. Feb. 15, 1916. 798

Holdings should be limited to 10% of capital and surplus of subscribing bank.

Feb. 16, 1916. 798

Other than member banks may subscribe.

Feb. 15, 1916. 798

National Bank Act.

Should be amended to provide for joint ownership of national banks in such banks or corporations.

Sept. 21, 1915. 783

Reaffirmed.

Feb. 15, 1916. 799

Contra: Fleishhacker

Forgan, Swinney, Record. 799

Reaffirmed: Sept. 18, 1916. 809, 810

Ratio. Acceptances to capital and surplus.

Present ratio of 6:1 is reasonable. May have to be increased later.

Feb. 15, 1916. 798

Nov. 19, 1918. 867

Ratio. Reserves to deposits.

No fixed ratio should be required. Nov. 19, 1918. 866, 867

Regulations.

Committee appointed to confer with Federal Reserve Board as to.

Sept. 18, 1916. 809

Rediscounts with Federal Reserve banks.

Approved. Feb. 15, 1916. 798

Reserves.

No fixed, against deposits in foreign countries should be required. Feb. 15, 1916. 798

Same reserve as for member banks against deposits in U.S.

Feb. 15, 1916. 798

Foreign Branches (Continued)
Member Banks, Stockholders, (Continued)
Reserves (Continued)
No portion of reserves against deposits in foreign countries should be required to be kept in Federal Reserve Banks.
Nov. 19, 1918. 866, 867
No fixed ratio of reserves against deposits should be required.
Nov. 19, 1918. 866, 867
Stock in.
Other than member banks may take.
Feb. 15, 1916. 798
Majority need not be owned by member banks.
Feb. 15, 1916. 798

Stock in banks having local foreign charter.
These banks should have power to invest in, up to a definite percentum of their capital and surplus.
Sept. 18, 1916. 799
Contra: Forgan, Fleishhacker, Swinney, Record. 799

Foreign Business, Federal Reserve Banks.
Should be done through foreign correspondents and not through foreign agencies or foreign branches.
Sept. 21, 1915. 783
Feb. 15, 1916. 797,798
Feb. 19, 1917. 824
May 21, 1918. 854

Foreign Correspondents.
See Supra, Foreign business. Federal Reserve Banks.

Foreign Countries.
No further steps needed to encourage American banking facilities in,
Nov. 19, 1918. 866
No necessity for informal conferences with central banking systems of, for regulation of gold.
Nov. 19, 1918. 868

Foreign Exchange.
Report to Secretary of the Treasury by special committee.
Sept. 18, 1917. 843, 845

Foreign Exchange Bank.
Unwise to establish a, under present conditions. (Owen Bill)
May 21, 1918. 859

Foreign Exchange Operations.
Arbitrage.
See Arbitrage
Gold
Development of
Expert should study,
Feb. 19, 1917. 826
Federal Reserve Banks
Should not now engage in,
April 20, 1915. 775

G.

Gold, continued.

Embargo.

Should be relaxed only to settle unfavorable trade balances before dollar exchange abroad falls so low as to increase intolerably cost of our imports.

Nov. 20, 1917. 850

Unwise to remove embargo at this time except as to Mexico in return for silver bullion.

Sept. 18, 1917. 863

Should be left to Gold Committee of Federal Reserve Board, but power should be given continuing its control for six months after declaration of peace.

Nov. 19, 1918. 868

Exports.

Should continue exports to neutral countries even if it impairs our resources, in order to win war.

Sept. 18, 1917. 843, 844
Nov. 20, 1917. 850

See: Secretary of Treasury; Committee on Foreign Exchange.

Federal Reserve Agent.

Gold held by should count as part of the gold reserve against Federal Reserve notes.

Feb. 19, 1917. 819, 827, 833, 835

Federal Reserve Bank notes.

See Infra. U. S. one year gold notes.

Federal Reserve banks.

Should supply gold and currency to all banks in denominations required, and United States Subtreasury functions should be transferred to Federal Reserve banks for this purpose.

Sept. 18, 1916. 809

Federal Reserve Board.

Approve action of President in putting gold exports under.

Sept. 18, 1917. 844

Not advisable for Federal Reserve Board to confer with European central banks as to regulating international flow of gold.

Nov. 19, 1918. 868

Federal Reserve Notes.

Should be issued against gold. Vote 6 to 3.

Contra: Wing, Ardrey, Rowe.

Nov. 16, 1915. 785, 788
Feb. 19, 1917. 819 (Unanimous)

Foreign bills.

Should be purchased and sold by Federal Reserbe Banks only to control exchange market and flow of gold.

Nov. 19, 1918. 868

Grain.
See: Food Administration Grain Corporation.

Great Britain.
United States in conjunction with, should establish a free gold market as soon as possible.
Nov. 19, 1918. 868, 869

Groups, Classification of banks.
See: Amendments, Sec. 4.

Guaranty of bank deposits.
Opposed to.
April 18, 1917. 842
May 21, 1918. 861

Federal Reserve Board could devise some plan for immediate relief of depositors in failed national banks.
April 18, 1917. 842

See Senate Bill. No. 9
" " " 742

H.

Hamlin, C. S.
Forgan to. Nov. 2, 1915
National Bank Examiners reports should be shown to banks examined. 784

Harding, W. P G.
To Forgan.
Asks whether a director should resign on moving out of district.
Council answers yes. Sept. 18, 1916. 814

See also: Revolving credits.

Hayes Bill.
Sec. 1.
Annual tax of 1/10 of 1% on aggregate amount of checks paid by any bank, etc. during each fiscal year, which bears the indorsement of or are collected through any other bank, etc. or private banker located outside of the state in which such checks are made payable. Provided, tax not to apply to Federal Reserve banks or member banks or to non member banks which maintain a collection or exchange account with any Federal Reserve bank under authority of Sec. 2.

Sec. 2.
A non member bank permitted to deposit, solely for purpose of exchange or collection, in Federal Reserve bank current funds, etc. checks, drafts payable upon presentation, or maturing notes and bills, provided it maintains a balance, to be determined by Federal Reserve Board, not to exceed amount of reserves it would have to maintain if it were a member bank, and provided it agrees to comply with the provisions of law and regulations of the Federal Reserve Board relating to the collection or clearance of checks, drafts, notes and bills through Federal Reserve banks. Council disapproves. April 18, 1917. 828

X 1669 676

Hoarding of gold.
The concentration of gold in Federal Reserve banks should be done cautiously to avoid.
Sept. 18, 1917. 844

Holland.
See Dollar Exchange.

Hollis Bill.
See Farm loan bonds.

H.R. 5901
Prior to issue of U. S. bonds the Secretary of the Treasury should state definitely all terms as to conversion privileges, etc.
Sept. 18, 1917. 844

H. R. 20661

See: Amendments, Sec. 3.

I.

Immediate advice.
See F.R.Exch. drafts.

Immediate availability.
See: F.R.exchange drafts.
Record.

Immediate credit.
See Clearing system.

Importation of luxuries.
Curtailment favored.
Sept. 18, 1917. 845

Imports.
Restriction of, favored.
Nov. 20, 1917. 850

See: Gold.

Income tax.
Normal tax only should apply to undistributed profits of F.R. banks. Sept. 17, 1918. 864

See Taxation, Government.

Increase of reserve requirements.

See Reserves.

Increased rates. Urged for public utility corporations.
Sept. 17, 1918. 863
See also: Discount rates.

M.

National Dry Goods Association.
Bill of, should be changed so that a reasonable allowance be made in inventories of merchandise under the Income Tax to allow for increased cost of production over average cost during pre war period.
Sept. 17, 1918. 865

Net balances.
See Reserves.

Neutral countries.
See Dollar Exchange.

New York District.
Discount rates.
No change recommended except that 10 day rate should be changed to 15 days.
Sept. 18, 1916. 806

Excess reserves.
Certain of larger New York banks hold practically all of.
Needed to care for bank deposits.
Sept. 18, 1916. 805

Ninety day loans.
See United States bonds.

Non essential credits.
See Essential and non essential credits.

Non member banks.
Should not have clearing privileges unless they belong to the local clearinghouse, if any/ in place of location.
Nov. 19, 1918. 870

See Clearing system.

Notes, drafts, etc.
See Hayes Bill.

Notice, Sixty days.
See Reserves; Anticipation of.

O

Officers of member banks. Fees. Sec. 22
See Amendments: Sec. 22

On adfice.
See Federal Reserve Exchange drafts.

Open market. See Acceptances.
Gold.

Open market operations.
A controlling factor in reserve situation.
May 16, 1916. 802

Open market purchases.
See Acceptances.
Domestic Acceptances.

Operations, Foreign Exchange.
See Foreign Exchange operations.

Optional reserves.
See Reserves: optional
" : vault

Orders, PO Money.
See Federal Reserve exchange drafts.

Out of town checks.
See charges: Sec. 16

Outlying districts. Reserves.
Disapproves suggested change in law to permit Federal Reserve Board to fix lower reserves for banks in outlying districts of reserve and central reserve cities.
Nov. 20, 1917. 849
Feb. 19, 1918. 855

Owen Bill.
Creating a foreign exchange bank.
Disapproved.
May 21, 1918. 859

Own Acceptances, Purchase of.
See Acceptances.

Owned, Actually.
See U.S. Revised Statutes: Sec. 5202.

P

Printing.
See Federal Reserve notes.

Privilege of conversion.
See H.R. 5901.

Priorities.
Capital and bond issues must yield to necessities of Government.
Feb. 19, 1918. 853

Private banker.
See Clayton Act.

Private bankers statements.
Should be in custody of the Governors of Federal Reserve banks; no others should have access to them except the Federal Reserve agents.
Nov. 16, 1915. 789

Private banks.
See Foreign Agencies.

Prorating of inter Federal Reserve bank rediscounts.
See Forgan, J.B.
Federal Reserve Banks.

Profit.
From handling Government business by Federal Reserve banks.
See Federal Reserve banks.
From rediscounts between F.R.banks.
See Forgan, J.B.

See Federal Reserve exchange drafts.

Profits, Undistributed. F.R. banks.
See Federal Reserve banks.
Income tax.

Proportion.
Taxes to bond issues.
Taxation should not exceed 25%.
April 18, 1917. 829

Public Utility corporations.
Notes secured by bonds of, should not be discountable by Federal Reserve banks.
Nov. 20, 1917. 849

Should be financed during war by Government.
Nov. 20, 1917. 849
Government commission should be appointed to fix rates of.
Sept. 17, 1918. 863

See also: Railroads.

Public Utility loans.

See Public Utility securities.

Public Utility securities.
The banks should not invest in, to any large extent.

Sept. 18, 1918. 863

Purchase of own acceptances.
See Acceptances.

Pyramiding of bank deposits.

Prior to Federal Reserve Act the double or triple reckoning of bank deposits as legal reserves formed the greatest evil of the pyramiding process.

Federal Reserve system has greatly reduced this danger by providing that no bank deposits other than with Federal Reserve banks shall be available as legal reserves and by providing rediscount facilities.

May 16, 1916. 801.

- R -

Reserves (Continued)

2. Member banks

Acceptances.

Should be made available as reserves to owning bank on date of maturity and payment
Nov. 19, 1918. 870

Anticipation of final payment.

Disapproved Nov. 16, 1915. 787

Favored, on 60 days notice, Nov. 20, 1916. 817

Basis of,

Should be based on combination of population and banking capacity. Feb. 16, 1916. 792

Should be based on character of deposits, - bank, commercial and time. Nov. 20, 1917. 850

Changes in,

None advised at present Feb. 19, 1918. 852

Conservation of reserves

Favored Sept. 18, 1917. 842

Deficient reserves.

Penalty for, favored April 20, 1915. 775

Excess reserves.

U. S. National Banks, 801.2 millions with approved Reserve Agents. 842.3 millions or 41.1 millions more than total excess reserves. Sept. 18, 1916. 806

Banks would be induced to deposit vault reserves in Federal Reserve Banks thus increasing excess reserves if they could always obtain gold and currency from Federal Reserve Banks in needed denominations. Nov. 20, 1916. 815

Disapproves giving immediate credit by Federal Reserve Banks on checks of member banks maintaining excess balances.
Sept. 18, 1916. 810.

Expects shrinkage in. Feb. 19, 1917. 824

Federal Reserve Districts:

Boston - 27 millions of which 24 millions are in New York
Sept. 18, 1916. 804

New York - Certain of larger banks in N. Y. City hold practically all.
Needed to care for bank deposits.
Sept. 18, 1916. 805

Phila. - Clearing house banks hold 32 millions.
Sept. 18, 1916. 805

Cleveland -About normal.
Sept. 18, 1916. 805

Richmond - Normal.
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February 19, 1917. 821

Federal Reserve Notes.
Should be legal reserves in vaults of member banks.
November 16, 1915. 785, 786, 788
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February 19, 1917. 819

Increase of reserves.
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February 19, 1917. 821

Liberty loans.
Will decrease reserves.
February 19, 1917. 824

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Lower reserve requirements.

Disapproves recommendation of Federal Reserve Board for 7, 10 and 13% with 5% till money recommends 6, 9 and 12% with 5,6, and 6% till money.

February 19, 1917. 819

Optional reserve.

Until state banks generally join Federal Reserve system, much of the optional reserve must be kept by member banks as vault cash for payment of clearing house balances as well as counter demands.

September 18, 1916. 809

Outlying districts.

Lower reserves in, of reserve and central reserve cities disapproved.

November 20, 1917. 849
February 19, 1918. 855

Penalty for deficient reserves,

Approved. April 20, 1915. 775

Ratio of.

No fixed ratio should be required. for foreign branch banks. February 15, 1916 798

November 19, 1918. 866, 867

State laws.

Modification recommended of reserves for state banks whose laws do not permit reserves with Federal Reserve Banks to be counted as compliance with state laws.

Till Money February 19, 1918. 858

See: Vault reserves.

Vault reserves.

Until state banks generally join Federal Reserve system, member banks, especially in large cities, must keep cash in vaults for clearing house balances as well as till money for counter use.

September 18, 1916. 809

Five per cent cash in vault recommended by Federal Reserve Board will not be sufficient. Should be 5, 6 and 6%.

February 19, 1917. 819

See also: Amendments. Sec.11
Deposits.
Foreign branches.

Resignation as director.

See: Directors.

Revolving acceptance credits.

With renewal privileges, even if technically eligible, are not self liquidating and not within spirit of Federal Reserve Act.

November 20, 1916. 816

Richmond district.

Discount rates.

No change advised.

September 18, 1916. 806

Excess reserves.

Normal September 18, 1916. 806

Rotation in office.

See: Federal Advisory Council.

Rowe.

Voted against having cost of Federal Reserve Notes borne by government.

November 16, 1915. 786

Voted against Federal Reserve Notes as legal reserve in vaults of member banks.

November 16, 1915. 786
November 20, 1916. 815

Voted against reducing paid in capital of Federal Reserve Banks.

November 16, 1915. 786

Voted against issue of Federal Reserve Notes against gold.

November 16, 1915. 788

Secretary of Treasury. continued.

Report of Committee:

1. Carefully scrutinize gold export applications.
2. Curtail importation of luxuries under Trading with Enemy Act.
3. Allies should exercise similar control.
4. Much gold carried out by travelers.
5. Federal Reserve Board should appoint Gold Committee.
6. Each member of Committee to be under oath.
7. Pound sterling should be continued to be stabilized, but without material diminution of U.S. gold supply.
8. Gold here must be maintained as basis of our credit operations.
9. If gold movement not controlled through allied agreement, arbitrage operations must be restricted or prohibited.
10. Hardships involved will be investigated if banks in foreign countries unfavorably affected would employ their funds in loans or investments in U.S. instead of exacting gold.
11. Earmarking of gold by our banks should be prevented.
12. Banks should report how much they have earmarked or held in custody and for whom.
13. Federal Reserve notes should be substituted for silver certificates and release bullion used for subsidiary coinage, the balance to be exported. Benefits of this policy stated.
14. Printing of small bills by Bureau of Engraving should be expedited. 848

Sec. 3 Federal Reserve Act.

See: Amendments: Sec. 3

Sec. 4. Federal Reserve Act.

See: Amendments: Sec. 4

Sec. 13 Federal Reserve Act.

Amendments suggested on acceptance provisions.

November 20, 1916. 817

Sec. 13 and 16. Federal Reserve Act.

Checks drawn on member banks or Federal Reserve Banks of other districts cannot be deposited by member banks. Federal Reserve Banks can receive them only when remitted by another Federal Reserve Bank.

May 21, 1915. 767

Federal Reserve Banks should not charge checks on member banks received by it against reserve account of the member banks without their authority and without their having an opportunity of passing upon them.

May 21, 1915. 767

Sec. 16. Federal Reserve Act.

Clearing and collection charges.

See: Charges. Sec. 16

Sec. 17. Federal Reserve Act.

See: Amendments. Sec. 17

Sec. 18. Federal Reserve Act. Conversions.
See: Amendments. Sec. 18

Sec. 22. Federal Reserve Act. Fees of directors etc.
Disapproved draft of Federal Reserve Board.
Recommends a draft.
April 18, 1917. 830 to 838
See: Amendments. Sec. 22

Sec. 24. Federal Reserve Act.
Suggests broadening power to loan on farm lands.
November 16, 1915. 787

Sec. 25. Federal Reserve Act.
Branches of national banks, Foreign.
See Amendments. Sec. 25

Section 5200, U.S. Revised Statutes.
See U.S. Revised Statutes: Sec. 5200

Securities.
See: Absorption of cost
Clayton Act.
Public Utility Corporations.

Self liquidating.
See: Revolving credits.

Senate Bill No. 9.
Guaranty of bank deposits etc.,
Insurance indemnity fund.
Disapproved.
April 18, 1917. 839, 842

Senate Bill No. 742.
Guaranty of bank deposits.
Mutual insurance fund.
Disapproved.
April 18, 1917. 839 842

Senate Bill No. 4226.
Guaranty of deposits up to $5,000.
Disapproved.
May 21, 1918. 859

Senate Bill No. 8259.
Should strike out provision limiting acceptances for any one person etc to 20% of capital and surplus.
February 19, 1917. 828

Shipment of gold.
See: Arbitrage.
Gold.

Silver.
Trust funds should not be turned over to Federal Reserve Banks.
February 19, 1917. 825

Silver bullion.
Gold embargo may be modified as to Mexico in exchange for,
See; Silver certificates
September 17, 1918. 863

Silver certificates.
Federal Reserve Notes should be substituted for.
September 18, 1917. 847

Sixty days notice.
See: Reserves: Anticipated etc.

Spain.
See: Dollar exchange.

Special rates.
See: Commodity rates.

Stabilization.
See: Dollar exchange
Pound sterling

State Banks etc.,
Acceptances.
Should be purchased only from, whose issue of acceptances does not exceed 100% of capital and surplus.
April 20, 1915. 774

Admission.
Approves regulations of Federal Reserve Board but suggests advice of counsel whether it can by regulation provide for withdrawal of state banks upon reasonable notice and equitable terms.
January 18, 1915. 767

Asks Federal Reserve Board to frame regulations.
April 20, 1915. 775

Applications for admission should be submitted to executive committee of Federal Reserve Bank.
May 21, 1915. 780

Regulations seem fair and liberal.
September 21, 1915. 782

Nothing more can be done to expedite admission of.
May 16, 1916. 814

Branches, Foreign.
See: Amendments: Sec. 25

Capital.
Inadvisable to permit state banks in existence November 16, 1914 but not having sufficient capital to become member banks, to join Federal Reserve System.
November 20, 1917. 849

State Banks. continued.

Clearing members.
Approved. February 19, 1917. 821

Clearing privileges.
See: Infra. Non member.

Clearing system.
See same.

Collection of checks. Fee for.
See: clearing system.

Draft of amendments.
Approved, revising recommendations of January 1917.
February 19, 1917. 838

Examination of.
Should be under direction of Federal Reserve Board.
November 16, 1915. 785.
Absorption of office of Comptroller would put an end to double.
November 16, 1915. 785
Multiplicity of, is chief reason why state banks will not join Federal Reserve system.
November 16, 1915. 785

Exchange charges.
Disapproved. November 20, 1916. 817

Government deposits.
Should be allowed to receive.
September 17, 1918. 864

Hayes Bill.
See Same.

Non member state banks
Should not have clearing privileges unless a member of local clearing house, if any.
November 19, 1918. 870

Real Estate Loans.
Limitation of power favored.
May 21, 1915. 780

Regulations.
Are just and liberal.
September 21, 1915. 782.

Reserve requirements.
Power in Federal Reserve Board to increase, would keep state banks out of Federal Reserve system.
February 19, 1917. 821
Favors power to Federal Reserve Board to modify, when state laws do not permit reserve deposits with Federal Reserve Banks to count as reserves.
February 19, 1918. 858

Taxation, government.

Proportion of taxes should not exceed 25% of war cost for first year. 50% would produce too great a strain.
April 18, 1917. 829

To impose a surplus profits tax and an additional income tax on 1916 incomes would be unjust and put an excessive burden upon corporations and individuals who having provided for 1916 taxes, and thereby discharging their tax obligation to the government, have put the balance in permanent improvements or fixed investments.
April 18, 1917. 829

Large incomes should not be taxed in undue proportions as the government is to make huge demands upon the investable surplus of the country.
April 18, 1917. 829

Should be levied upon luxuries and as little as possible upon thrift, enterprise and savings.
April 18, 1917. 830

Taxation of undistributed profits. Federal Reserve Banks.

Only the normal income tax should apply.
September 17, 1918. 864.

Time deposits.

Suggested definition of.
December 24, 1914. 766

Danger from fictitious.
May 21, 1915. 776

Undistributed profits.
Normal income tax only should apply to, of Federal Reserve Banks.
September 17, 1918. 864

Unfavorable trade balances.
See: Gold.
U.S. one year gold notes.)

United States Bonds. (see also, U.S. Treasury certificates)
Amount of issue. First war loan.
Recommends one billion dollars of long term bonds, if adequate to meet necessities of government.
1. Will assume successful flotation.
2. Should not be in excess of short term certificates issued in anticipation, thus avoiding tying up of money or credits.
3. If thus handled the entire bond financing could be handled through the Federal Reserve Banks as fiscal agents.
4. Serious disturbances of bank balances would thus be avoided.
5. Coupled with careful use of short certificates this method would obviate necessity for general deposit of government funds in the banks.
6. The bonds should run for 30 years but callable after 5 years.

Bank deposits. April 18, 1917. 829
Pending issue will dislocate bank deposits.
Small investors will encroach on savings deposits.
Rediscounts with Federal Reserve Banks will increase.
September 18, 1917. 842

Conversion privileges.
Should be clearly announced by Secretary of Treasury.
September 18, 1917. 844

Discount rates.
Preferential rate on 90 day paper secured by, is desirable.
November 20, 1917. 848
February 19, 1918. 852
On 4th Liberty Loan, of from $\frac{1}{4}$ to $\frac{1}{2}$ of 1% below coupon rate. September 17, 1918. 863, 864

Minimum deposit of, with Treasurer of U.S.
See: Amendments: Sec. 17

Preferential rates.
See Supra, Discount rates

Rates.
For next Liberty Loan should be a short term taxable $4\frac{1}{2}$% bond. Government must more nearly approach market value of money. February 19, 1918. 852

Term of
See Supra "amount" etc.

Three per cent conversion bonds.
See: Amendments, Sec. 18.

Two per cent bonds.
Should be exchangeable into 3%s without circulation privilege, and not 1/2 into U. S. One Year Gold Notes.
See: Amendments, Sec. 18. February 19,1917 823

United States Government.
Should bear cost of printing Federal Reserve notes
November 16, 1915 786

Warrants.

Approval of regulation, 1914.
December 24, 1914. 765

Wells, Governor

Does not vote on question of making intradistrict clearings mandatory.
September 21, 1915. 784

Wing, D.

Voted in minority on question of cost of Federal Reserve Notes being borne by Government.
November 16, 1915. 786

Votes against reduction of paid in capital stock of Federal Reserve banks.
November 16, 1915. 786

Voted against permitting Federal Reserve Notes to be issued against gold etc.
November 16, 1915. 788

FEDERAL RESERVE BOARD

Office of Chief Clerk.

September 11, 1919.

To the Employes of the Federal Reserve Board:

The officials of the Treasury Department, in conjunction with the Citizens Buying and Selling League, have perfected an organization whereby employes of the Treasury Department may purchase foodstuffs at a material saving. The employes of the Federal Reserve Board are permitted to participate in this arrangement which is substantially as follows:

Employes are permitted to join the organization upon the purchase of a membership certificate at a cost of $5.00. The capital thus obtained is to be used as a working fund for the establishment of the store. The certificate is not transferable and is evidence of membership in the organization; but any member may withdraw upon thirty days notice and receive a refund of his initial payment.

The sale of goods will be by means of purchase tickets, which at present will be in the denominations of $1, $2, $5 and $10.

Space will be provided in the Treasury Department for the store which will be opened from 8 or 8:30 a. m. until 6 p. m., thus enabling employes to call before or after office hours to make purchases.

At the present time, while no free delivery system will be inaugurated, it will be the endeavor to perfect arrangements whereby bulky materials may be delivered at cost, the idea being that a delivery charge shall not be assessed where purchases are taken away by the customer.

Mr. John J. McGrath, who has had considerable experience in this line of work, will be in charge, and he is making arrangements for the purchase of supplies at wholesale prices. A sufficient percentage will be added to the cost to cover actual overhead charges, but it is the opinion of all concerned that the selling price will be materially below that in the retail markets.

Similar organizations in other departments have proved highly successful, and there is no doubt that this venture will also be of great benefit if a sufficient number of people are interested. The certificates of membership will be ready for distribution on and after September 15th. Payments will not be required, however, until the certificates are in hand.

It is hoped that the employes of the Federal Reserve Board will feel free to take advantage of this privilege, for this is your store and its success depends upon your interest.

J. De La MATER,

Chief Clerk.

X-1671

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

Release for morning papers,
Saturday, September 13, 1919.

Addressing the convention of the West Virginia Banker's Association at White Sulphur Springs yesterday, Governor Harding, of the Federal Reserve Board, selected as his topic the question, "Should exports be restricted as a means of reducing the present high cost of living". Recognizing the problem of high living costs to be one of universal rather than purely national urgency, Governor Harding stated the primary cause of present high costs to be the destruction of life and property and the consumption of liquid wealth occasioned by the world war.

He said: "There has been a vast expansion of credits, not only in this

> country but throughout the civilized world, and workers have manifested since the suspension of hostilities a desire to relax from the rigors of the war-time regime, from drastic economies and deprivations, and they are at the same time demanding shorter working hours and more pay. Because of this and of the impairment of productive capacity, there has been a curtailment of production and higher costs in the processes of distribution, which have driven prices up to a higher level than was reached during the closing months of the war.

"Much has been said about the reduced purchasing power of the dollar, and according to the index figures frequently referred to by economists, it is clear that when expressed in terms of staple articles of commerce the value of the dollar is only about half what it was five years ago. But it is true, nevertheless, that in terms of the currency of many foreign countries, including all of the recent belligerents, the value of the dollar has increased. While a drastic contraction of currency and credit would no doubt be followed by a reduction in the price level, as expressed in terms of dollars, it is certain that a lower price level brought about in this manner would be accompanied by decreased production. A drastic change would, moreover, undoubtedly result in much financial distress and in a grave economic situation. In seeking a remedy therefore, for present high prices we should bear in mind that before and after the entrance of this Country into the war there was an urgent need on the part of the Governments of the allied world for goods of all kinds for quick delivery and in large volume and that price was a minor consideration. There was also competition between this buying by governments and purchases by private individuals who failed to contract their expenditures at a rate commensurate with the growing expenditures of the various governments.

"We are now passing through a period of general relaxation from the war-time regime of personal economy, which has resulted in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. Accrued incomes and increased wages have led to a heavy demand for articles not of prime necessity, with the result that labor and material have been diverted from essentials to non-essentials. The increased volume of credits in this Country is the inevitable result of the financial operations of our Government, which was called upon to make vast expenditures for the maintenance of its own military and naval establishments, and to extend assistance to the governments associated with it in the war. From the first of April, 1917, to the first of August, 1919, the interest-bearing indebtedness of the United States increased by about twenty-four and one-half billion dollars, an amount greatly in excess of the normal savings of the people, and the success of the financial operations of the Treasury was due to the patriotic support given by all classes of citizens who were willing to anticipate their future savings by borrowing from the banks, and also by the ability and willingness of the banks to make the loans.

These expanded credits, however, should be reduced as rapidly as possible out of current savings, and the most effective remedy for present conditions, whether viewed from an economic or financial standpoint, is to work and save. Reasonable economies should be exercised in order that money, goods and services may be devoted to the liquidation of debt and to the satisfaction of demands for necessities rather than to indulgence in extravagances and luxuries. Increased production of essential articles is necessary, and it is most important that there be no interruption in the processes of production and distribution.

"Our exports increased enormously during the war period, and because of the continual rise in prices their value, as expressed in dollars, increased in greater proportion than the volume of goods sent abroad. In May, 1917, the Government of the United States began to make loans to its cobelligerents, the total amount of these loans will soon reach ten billion dollars, which, unless the laws are amended, will be the ultimate and final limit. Because of the financial aid given by the public treasury, our export problems during the war period were limited to the production and transportation of the goods, and the burden of financing was borne by the nation as a whole. With the exhaustion of Government credits the question of financing exports has become one of prime importance, and in considering the problem we should first of all reconcile ourselves to the idea that it is neither practicable nor desirable to export, to European countries at least, on as large a scale as we have done for the past three or four years. It is not practicable for the reason that these countries are unable to settle in cash for so large an advense trade balance, nor can we continue to extent them credits for so large an amount. It is not desirable because with the limitations upon our production we could not continue indefinitely to send so large a volume of goods to Europe without causing a scarcity at home, which would result in even higher prices and more unsettled labor conditions than those which are now giving us so much concern.

"The war has levied an enormous tax upon the resources of all European countries, and there is nothing to show for the vast sums expended by the belligerents which have gone up in smoke. It is necessary that these countries should henceforth conserve their resources in order that they may rehabilitate themselves as rapidly as possible, give employment to their idle populations, and work themselves back to a self-sustaining basis. The governments of these countries are doing all in their power to discourage a demand for luxuries and to prevent extravagant expenditures, and it is evident that they do not regard a severe decline in their exchanges as an unmixed evil. Low exchange rates in the belligerent countries increase automatically the cost of all goods imported into these countries and operate to reduce consumption."

For example, he said:

"If an American exporter ships goods to Liverpool and draws sterling bills against the shipment in the customary way for, say, £10,000 sterling and wishes to convert his bills into dollars, he would receive, not $48,666, as he would under normal conditions with the pound sterling on a parity with the dollar, but he would receive only $41,550. This difference of $7,116 represents a loss in exchange without reference to ocean freight rates and insurance, and this loss must be borne either by the producer of the goods, the exporter, or by the consumer on the other side. If borne by the consumer it will tend to bring about economies and reduce the amount of goods consumed. If borne by the exporter, the loss will be immediately transferred to the producer in the shape of a lower price paid for his goods.

Mr. Harding expressed the belief that by adopting sound principles America could accomplish the twofold purpose of fostering her export trade and reducing her living costs, saying:

"I do not wish to be understood as minimizing the importance of maintaining and extending our legitimate export trade, but I wish to point out that in dealing with Europe other considerations must govern than mere profit and volume of business. Europe must have the equipment and the goods which are necessary to restore its productive capacity and to bring it back to a self-sustaining basis, and as the adverse exchange rates reflect its inability to pay in gold or to offset its imports by exports, it follows that temporary credits on a very large scale must be provided. Ordinary banking credits will not avail, for these credits cannot well be extended beyond six months, a period manifestly too short for the restoration of more normal rates of exchange. Longer credits are required, running from one to three years, which cannot properly be extended by the commercial banks, which have large deposit liabilities payable on demand."

"These credits must be extended with a definite object in view - the rehabilitation of the countries to which they are extended - and the American people should cooperate with the Governments of these countries in preventing large purchases of luxuries on credit. The credits granted should be used for the purchase of essential articles necessary for the preservation of life and the restoration of a normal capacity for production."

"It happens that the necessary material and supplies of which Europe stands in need at the present time come within the class of commodities of which we normally produce a surplus available for export. We should endeavor to increase our production of these articles and to send them over without stint up to the limit of the credits provided, but we should neither encourage nor permit, as far as our power lies, these peoples already so heavily in our debt to become further indebted to us for the purchase of non-essentials and luxuries."

"The field is broad, and we should not neglect our opportunity to extend our trade to those more fortunate countries which have relied hitherto mainly upon Europe for their finer goods. Some of the European neutrals, such as Spain, the Netherlands, and the Scandinavian countries, are able to pay in cash for the goods they buy, and in the Orient, Japan is prepared to pay cash. The South American countries are about to enter upon an era of great prosperity, and their markets offer a most attractive outlet for our more expensive articles of manufacture. We should, therefore, be prepared to sell to to any nation any goods for which that nation may be able to pay in cash, but the point I wish to emphasize is this: where we sell on credit we should exercise a wise discretion as to the character of the articles sold."

"I am aware that many exporters believe that the Government of the United States should continue for a while longer its war-time policy of extending credits to the nations lately associated with us in the war in order that we may have a ready market in those countries for our goods. I think, however, that the sooner this idea is abandoned the better, for I see no indication of a willingness on the part of the Congress of the United States to grant further credits, nor do I believe that it is for the best interest of our country that war policies be continued in times of peace.

While it is true that the maintenance and development of our export trade affects the prosperity of the people as a whole, it is also true, nevertheless, that a comparatively small portion of the people are more directly concerned and benefited than are the masses of the people, and I think that we should reach the conclusion as speedily as possible that the development of our foreign trade, apart from such incidental assistance as the Government may properly give, is a matter for private initiative and individual enterprise. While the direct credits which this Government may grant to foreign governments is limited to an aggregate of ten billion dollars, of which only a few hundred millions remain unused, the War Finance Corporation, the stock of which is owned by the United States Treasury, is empowered to make advances up to one billion dollars to assist export transactions. National banks having a capital and surplus of not less than one million dollars are authorized, under regulations prescribed by the Federal Reserve Board, to subscribe to the extent of ten per cent of their capital and surplus to the capital stock of banks or corporations organized under the laws of the United States, or of any State thereof, and principally engaged in foreign banking, and a bill has recently passed both Houses of Congress and is now in the hands of the President which will permit any national bank, regardless of its size, to subscribe to the extent of five per cent of its capital and surplus to the capital stock of corporations principally engaged in such financial operations as may be necessary to promote the export of goods, wares and merchandise from the United States or any of its dependencies. Another measure, known as the "Edge Bill", which has already passed the Senate and has gone to the House, authorizes the Federal incorporation, under the supervision of the Federal Reserve Board, of banks and corporations engaged principally in foreign banking or in financing exports. Our shipping facilities have been greatly increased; an American Merchant marine has been established, and our goods can be sent to the four corners of the earth, throughout all the seven seas, and in American bottoms."

"The opportunity is ours - an opportunity greater than we ever dreamed of - to become a powerful factor in world financing and world trade. Surely we will grasp this opportunity! We must take advantage of the world-wide demand for the products of our fields, our mines, and our factories, sending whatever may be desired to those countries which are able to pay cash, and sending the articles most needed to those requiring credit."

"The controversy between capital and labor will receive serious consideration at the conference which has been called to meet in October, and let us hope that the whole question will be approached in a Broad American spirit, that wise counsels will prevail, and that the differences will be ironed out and adjusted fairly and impartially. Let us realize that crops cannot be grown, coal cannot be brought above the ground, metals cannot be fabricated nor textiles woven without capital and without work, that capital is entitled to a just return and that the laborer is worthy of his hire; that increased production and greater economies are the only correctives for the present high cost of living and are essential if we wish to have a surplus of goods to send abroad; that shorter hours coupled with higher pay tend inevitably to reduce production and increase costs.

SHOULD EXPORTS BE RESTRICTED
AS A MEANS OF REDUCING THE PRESENT HIGH COST OF LIVING?

Address by Hon. W. P. G. Harding,
Governor of the Federal Reserve Board,
before the West Virginia Bankers' Association,
White Sulphur Springs, W. Va., September 12, 1919.

The high cost of living, which is the most serious problem confronting the American people at the present time, is not merely a local question nor a national one, but is a world-wide condition. While various factors have contributed to the existing situation, its fundamental cause is being better understood every day, and the principles which must govern the application of the only effective remedy are becoming more clearly defined. While the gratification of a general desire to possess more of the comforts and luxuries of life and the demand for more hours of leisure and recreation has undoubtedly contributed to higher costs, it is recognized that the primary cause of the great advance in prices and wages during the past four and a half years is the terrible destruction of life and property and the consumption of liquid wealth occasioned by the world war.

There has been a vast expansion of credits, not only in this country but throughout the civilized world, and workers have manifested since the suspension of hostilities a desire to relax from the rigors of the war-time regime, from drastic economies and deprivations, and they are at the same time demanding shorter working hours and more pay. Because of this and of the impairment of productive capacity, there has been a curtailment of production and higher costs in the processes of distribution, which have driven prices up to a higher level than was reached during the closing months of the war.

Much has been said about the reduced purchasing power of the dollar, and according to the index figures frequently referred to by economists, it is clear that when expressed in terms of staple articles of commerce the value of the dollar is only about half what it was five years ago. But it is true, nevertheless, that in terms of the currency of many foreign countries, including all of the recent belligerents, the value of the dollar has increased, and while a drastic contraction of currency and credit would no doubt be followed by a reduction in the price level, as expressed in terms of dollars, it is certain that a lower price level brought about in this manner would be accompanied by decreased production. A drastic change would, moreover, undoubtedly result in much financial distress and in a grave economic situation, and in seeking a remedy for present high prices we should bear in mind that before and after the entrance of this country into the war there was an urgent need on the part of the governments of the allied world for goods of all kinds for quick delivery and in large volume and that price was a minor consideration. There was also competition between this buying by governments and purchases by private individuals who failed to contract their expenditures at a rate commensurate with the growing expenditures of the various governments.

We are now passing through a period of general relaxation from the war-time regime of personal economy, which has resulted in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. Accrued incomes and increased wages have led to a heavy demand for articles not of prime necessity, with the result that labor and material have been diverted from essentials to non-essentials. The increased volume of credits in this country is the inevitable result of the financial operations of our Government, which was called upon to make vast expenditures for the maintenance of its own military and naval establishments and to extend assistance to the governments associated with it in the war. From the first of April, 1917, to the first of August, 1919, the interestbearing indebtedness of the United States increased by about twenty-four and one-half billion dollars, an amount greatly in excess of the normal savings of the people, and the success of the financial operations of the Treasury was due to the patriotic support given by all classes of citizens who were willing to anticipate their future savings by borrowing from the banks, and also by the ability and willingness of the banks to make the loans. These expanded credits, however, should be reduced as rapidly as possible out of current savings, and the most effective remedy for present conditions, whether viewed from an economic or financial standpoint, is to work and save. Reasonable economies should be exercised in order that money, goods and services may be devoted to the liquidation of debt and to the satisfaction of demand for necessities rather than to indulgence in extravagances and luxuries. Increased production of essential articles is necessary, and it is most important that there be no interruption in the processes of production and distribution.

Our exports increased enormously during the war period, and because of the continual rise in prices their value, as expressed in dollars, increased in greater proportion than the volume of goods sent abroad. In May, 1917, the Government of the United States began to make loans to its co-belligerents. The total amount of these loans will soon reach ten billion dollars, which, unless the laws are amended, will be the ultimate and final limit. Because of the financial aid given by the public treasury, our export problems during the war period were limited to the production and transportation of the goods. and the burden of financing was borne by the nation as a whole. With the exhaustion of Government credits, the question of financing exports has become one of prime importance, and in considering the problem we should first of all reconcile ourselves to the idea that it is neither practicable nor desirable to export to European countries at least, on as large a scale as we have done for the past three or four years. It is not practicable for the reason that these countries are unable to settle in cash for so large an adverse trade balance, nor can we continue to extend them credits for so large an amount. It is not desirable, because with the limitations upon our production we could not continue indefinitely to send so large a volume of goods to Europe without causing a scarcity at home, which would result in even higher prices and more unsettled labor conditions than those which are now giving us so much concern.

The war has levied an enormous tax upon the resources of all European countries, and there is nothing to show for the vast sums, expended by the belligerents, which have gone up in smoke. It is necessary that these countries should henceforth conserve their resources in order that they may rehabilitate themselves as rapidly as possible, give employment to their idle populations, and work themselves back to a self-sustaining basis. The governments of these countries are doing all in their power to discourage a demand for luxuries and to prevent extravagant expenditures, and it is evident that they do not regard a severe decline in their exchanges as an unmixed evil. Low exchange rates in the belligerent countries increase automatically the cost of all goods imported into these countries and operate to reduce consumption.

The pound sterling, which has been for centuries the commercial unit of value throughout the world, was pegged during the war and up to a few months ago at a discount of about two per cent; that is to say, the

British Government, out of loans made to it by the United States Government, bought sterling bills at a fixed rate of $4.76-7/16 per pound. But the British Government is no longer making any attempt to stabilize sterling exchange, and since its support has been withdrawn sterling bills have fallen rapidly. They have been quoted as low as $4.12, and on a recent date the cable rate in New York was $4.15½. The rate for sight and time bills is, of course, lower than the rate for cable transfers. As the par value of the pound sterling is $4.866, the present rate means that there is a depreciation of 71¢ on every pound sterling. Consequently, if an American exporter ships goods to Liverpool and draws sterling bills against the shipment in the customary way for, say, £10,000 sterling and wishes to convert his bills into dollars, he would receive, not $48,666, as he would under normal conditions with the pound sterling on a parity with the dollar, but he would receive only $41,550. This difference of $7,116 represents a loss in exchange without reference to ocean freight rates and insurance, and this loss must be borne either by the producer of the goods, the exporter, or by the consumer on the other side. If borne by the consumer it will tend to bring about economies and reduce the amount of goods consumed. If borne by the exporter, the loss will be immediately transferred to the producer in the shape of a lower price paid for his goods.

The same observations apply to shipments made to France and Italy, and will apply to the Germanic countries as soon as trade relations with those countries shall have been reestablished. Exchange rates are far more demoralized in all these countries than they are in England. For instance, French francs, of which normally 5.18 make a dollar, have declined to a point where there are required about 8.32 francs to be the equivalent of a dollar.

This means that on every purchase made by a Frenchman in terms of dollars he must pay 3.14 francs, or about 60¢, additional, or, stated in another way, the American dollar is at a premium of 60% in France.

The Italitan lira is normally worth the same as a franc, but instead of 5.18 lire being equivalent to a dollar, 9.72 lire are required, so that the Italian purchaser of American goods has to pay 4.54 lire additional on each dollar's worth of goods he buys. This is equivalent to a premium of nearly 90% on each dollar.

The German mark, normally worth about 24¢, was recently quoted at 4.35 cents. Consequently, the German who buys goods in terms of dollars will pay in exchange nearly six times what he would have had to pay before the war.

I do not wish to be understood as minimizing the importance of maintaining and extending our legitimate export trade, but I wish to point out that in dealing with Europe other considerations must govern than mere profit and volume of business. Europe must have the equipment and the goods which are necessary to restore its productive capacity and to bring it back to a self-sustaining basis, and as the adverse exchange rates reflect its inability to pay in gold or to offset its imports by exports, it follows that temporary credits on a very large scale must be provided. Ordinary banking credits will not avail, for these credits cannot well be extended beyond six months, a period manifestly too short for the restoration of more normal rates of exchange. Longer credits are required, running from one to three years, which cannot properly be extended by the commercial banks, which have large deposit liabilities payable on demand.

These credits must be extended with a definite object in view - the rehabilitation of the countries to which they are extended - and the American people should cooperate with the governments of these countries in preventing large purchases of luxuries on credit. The credits granted should be used for the purchase of essential articles necessary for the preservation of life and the restoration of a normal capacity for production.

Suppose a large farmer or manufacturer, a good moral risk, has become involved in financial difficulties and that he has applied to a group of bankers to whom he is already indebted, for an extension and for some further advances in order to enable him to work back to solid ground. Any banker participating in this additional credit would expect the borrower to apply the amount to the necessities of his business, and if he should divert the proceeds to the purchase of expensive jewelry, automobiles and pianolas, he would become the object of just indignation and could expect no leniency at the hands of his creditors.

It happens that the necessary material and supplies of which Europe stands in need at the present time come within the class of commodities of which we normally produce a surplus available for export. We should endeavor to increase our production of these articles and to send them over without stint up to the limit of the credits provided, but we should neither encourage nor permit, as far as our power lies, these peoples already so heavily in our debt to become further indebted to us for the purchase of non-essentials and luxuries.

The field is broad, and we should not neglect our opportunity to extend our trade to those more fortunate countries which have relied hitherto mainly upon Europe for their finer goods. Some of the European neutrals, such as Spain, the Netherlands, and the Scandinavian countries, are able to pay in cash for the goods they buy, and in the Orient, Japan is prepared to pay cash. The south American countries are about to enter upon an era of great prosperity, and their markets offer a most attractive outlet for our more expensive articles of manufacture. We should, therefore, be prepared to sell to any nation any goods for which that nation may be able to pay in cash, but the point I wish to emphasize is this: where we sell on credit we should exercise a wise discretion as to the character of the articles sold.

I am aware that many exporters believe that the Government of the United States should continue for a while longer its war-time policy of extending credits to the nations lately associated with us in the war in order that we may have a ready market in those countries for our goods. I think, however, that the sooner this idea is abandoned the better, for I see no indication of a willingness on the part of the Congress of the United States to grant further credits, nor do I believe that it is for the best interest of our country that war policies be continued in times of peace. Our government is the peoples' government, and its revenues are derived entirely from the people. It can raise money only by taxes levied upon the people or by the sale of interest-bearing obligations, which must be subscribed for by the people, and eventually paid by the people. While it is true that the maintenance and development of our export trade affects the prosperity of the people as a whole, it is also true, nevertheless, that a comparatively small portion of the people are more directly concerned and benefited than are the masses of the people.

There is an abundance of wealth in this country, there is plenty of organizing ability and no lack of business acumen, and I think that we should reach the conclusion as speedily as possible that the development of our foreign trade, apart from such incidental assistance as the Government may properly give, is a matter for private initiative and individual enterprise.

While the liquid wealth of Europe has been greatly reduced because of the drains made upon it by the war, the fixed wealth and material resources, are not vitally affected. I have no doubt that even in those countries which suffered most there are abundant resources to secure any credits which may be needed for the purchase of necessary articles, and our Government is offering ample facilities to those desiring to arrange to send to Europe the things most needed. While the direct credits which this Government may grant to foreign governments are limited to an aggregate of ten billion dollars, of which only a few hundred millions remain unused, the War Finance Corporation, the stock of which is owned by the United States Treasury, is empowered to make advances up to one billion dollars to assist export transactions. National banks having a capital and surplus of not less than one million dollars are authorixed, under regulations prescribed by the Federal Reserve Board, to subscribe to the extent of ten per cent. of their capital and surplus to the capital stock of banks or corporations organized under the laws of the United States, or of any State thereof, and principally engaged in foreign banking, and a bill has recently passed both Houses of Congress and is now in the hands of the President which will permit any national bank, regardless of its size, to subscribe to the extent of five per cent of its capital and surplus to the capital stock of corporations principally engaged in such financial operations as may be necessary to promote the export of goods, wares and merchandise from the United States or any of its dependencies.

Another measure, known as the "Edge Bill", which has already passed the Senate and has gone to the House, authorizes the Federal incorporation, under the supervision of the Federal Reserve Board, of banks and corporations engaged principally in foreign banking or in financing exports. Our shipping facilities have been greatly increased; an American merchant marine has been established, and our goods can be sent to the four corners of the earth, throughout all the seven seas, in American bottoms under the protecting aegis of the American flag.

The opportunity is ours - an opportunity greater than we ever dreamed of - to become a powerful factor in world financing and world trade. Surely we will grasp this opportunity. We must take advantage of the world-wide demand for the products of our fields, our mines, and our factories, sending whatever may be desired to those countries which are able to pay cash, and sending the articles most needed to those requiring credit.

The controversy between capital and labor will receive serious consideration at the conference which has been called to meet in Washington in October, and let us hope that the whole question will be approached in a broad American spirit, that wise counsels will prevail and that the differences will be ironed out and adjusted fairly and impartially. In the language of the Litany - From all false doctrine, heresy and schism, Good Lord deliver us.

Let us realize that crops cannot be grown, coal cannot be brought above the ground, metals cannot be fabricated nor textiles woven without capital and without work, that capital is entitled to a just return and that the laborer is worthy of his hire, that increased production and greater economies are the only correctives for the present high cost of living and are essential if we wish to have a surplus of goods to send abroad, that shorter hours coupled with higher pay tend inevitably to reduce production and increase costs, and that the American Union, which is represented by the flag which waved triumphant on the battle fields of France, is the supreme union and is the one to which we owe paramount allegiance.

	Governor	Deputy Governor	Cashier	Assistant Cashiers
BOSTON				
	Chas. A. Morss	Chas. E. Spencer,Jr.	Wm. Willett	E.M. Leavitt
		C.C. Bullen		F.W. Chase
				Wm. N. Kenyon
				H.A. Saunders
				L.W. Sweetser
NEW YORK				
	Benjamin Strong	R.H. Treman*	L.H. Hendricks**	G.E. Chapin#
		J.H. Case*	E.R. Kenzel**	J.E. Crane#
		L.F. Sailer*	J.D. Higgins**	W.H. Dillistin#
		Wm. Woodward*		W.A. Hamilton#
		(Inactive)		J.W. Jones#
				W.B. Matteson#
				R.M. O'Hara#
				L.R. Rounds#
				C.H. Coe#
				R.T. Crane#
				A.W. Gilbart#
				H.M. Jefferson#
		R.T. Crane(Asst		A.J. Lins#
		to Governor)		H.R. Murray#
				J.E. Raasch#
				W.M. St.John#
				I.W. Waters#
PHILADELPHIA				
	E.P. Passmore	Wm. H. Hutt, Jr	W.A. Dyer	Thomas Gamon, Jr
				C.A. McIlhenny
				James M. Toy
				R.M. Miller,Jr
				Frank LaBold
				W.J. Davis
CLEVELAND				
	E.R. Fancher	M.J. Fleming)	H.G. Davis	W.F. Taylor
		Frank J. Zurlinden)		H.F. Strater
		(Assistants to		C.W. Arnold
		Governor)		
RICHMOND				
	George J. Seay	Chas. A. Peple	George H. Keesee	C.V. Blackburn
		R.H.Broadus		Thos. Marshall,Jr.
				W.W. Dillard
				Edw. Waller,Jr.
ATLANTA				
	M.B. Wellborn	L.C. Adelson	M.W. Bell	R.A. Sims
				J.L. Campbell
				W.R. Patterson
				W.B. Roper
				H.F. Conniff

* Also Controller ** Controller # Manager

Governor	Deputy Governor	Cashier	Assistant Cashiers.
CHICAGO			
J.B. McDougal	C.R. McKay B.G. McCloud(Asst to Governor)	S.B. Cramer	F.J. Carr Clark Washburne Frank A. Lindsten O.J. Netterstrom D.A. Jones J.H. Dillard F. Bateman F.R. Hanrahan A.H. Vogt K.C. Childs Louis G. Meyer(Acting) Vanemin Lamont(Acting)
ST.LOUIS			
Davis C. Biggs	O.M. Attebery	J.W. White	A.H. Haill J.W. Rinkleff W.H. Glasgow
MINNEAPOLIS			
Theodore Wold	R.A. Young	S.S. Cook	F.C. Dunlop Gray Warren R.E. Towle L.E. Rast
KANSAS CITY			
J.Z. Miller, Jr.	C.A. Worthington (Asst. to Governor)	J.W. Helm (Acting)	John Phillips,Jr. E.P. Tyner L.H. Earhart G.E. Barley C.E. Daniel M.W.E. Park
DALLAS			
R.L. Van Zandt	Lynn P. Talley(also Cashier)	(See Deputy Governor)	Fred Harris Paul G. Taylor R.B. Coleman Dwight P. Reordon
SAN FRANCISCO			
J.U. Calkins	Wm. A. Day (Ira Clerk(Asst Deputy Governor)		W.N. Ambrose C.D. Phillips H.C. Vogelsang C.R. Shaw Wm. Hale F.H. Holman

Corrected to September 15,1919.

FEDERAL RESERVE BOARD

WASHINGTON

September 18,1919.
X-1676

Subject: Election of Class A and B Directors.

Dear Sir:

The Federal Reserve Board has instructed me to advise you that it is desired that groups for the election of Class A and B directors this year be selected on the same basis as prescribed by the Board last year. The Board has designated Tuesday, November 18, 1919, as the date for opening the polls.

Please acknowledge receipt.

Very truly yours,

Secretary.

Letter to Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

September 20, 1919.

X-1677

Subject: Investment demand for Treasury Certificates.

Dear Sir:

Referring to the telegrams of Assistant Secretary of the Treasury Leffingwell under date of September 6th and September 18th, the Board is convinced that the great success of the offerings of certificates Series T-9 and T-10 marks the turning point of Treasury war financing, and will have the effect of demonstrating the desirability of Liberty loan issues for investment purposes. This should lead to contraction of credit and to consequent strengthening of the Federal Reserve Banks' reserve percentages. This advantageous situation will, however, work its full effect only if the banks of every district fully cooperate in placing these Treasury certificates with actual investors and taxpayers.

In view of circulars sent by the Treasury Department to over six hundred thousand bondholders and taxpayers, a demand for these certificates will undoubtedly develop from these sources, and banks should be urged wherever possible to sell their own certificates to investors and taxpayers, and in cases where the banks hold no certificates they should be urged to purchase certificates for account of their customers. The facilities of the Federal Reserve system should be freely used to secure the widest possible distribution of certificates to investors and taxpayers; Federal Reserve Banks that cannot supply certificates should buy them from those Federal Reserve Banks which are in position to supply them.

The procedure above outlined will be an important factor in carrying out the wishes of the Board for the establishment of a higher reserve percentage, as set forth in circular letter of September 5th (X-1666).

Very truly yours,

Governor.

Letter to each Governor.

Released for publication, morning papers, September 25, 1919.

THE COST OF LIVING PROBLEM

An address by

A. C. Miller, Member, Federal Reserve Board,

Delivered at Chicago,

Wednesday, September 24, 1919,

before the

American Association of the Baking Industry.

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That there is a feeling of unrest abroad in the country is too obvious to admit of questioning. That this unrest is delaying the recovery and re-adjustment of industry and in general the restoration of normal conditions seems almost equally obvious. That this unrest is social as well as industrial is becoming clearer every day. That the unrest in the United States is a part of the general world unrest following the great war has latterly become evident. That the situation is a serious one can not be denied, but just because it is serious it is well not to make it more serious by taking it too seriously. Alarm and apprehension do not create the best atmosphere in which to take wise counsel and make wise decisions. On the other hand the situation is not one to be taken light-heartedly as some are showing a disposition to do. It will not do to dismiss the existing unrest with the remark that it is "natural" after such a war as the world has gone through these past five years and that conditions are worse in other countries than our own. It is no ordinary condition of unrest with which we are confronted. Industrial discontent forms a large part of it but it is more than an industrial question that is presented. Doubts, distrust and antagonism have taken hold of the mind and soul of large sections of the populations of all the leading countries of the world, our own included, with respect to existing institutions and other social classes. The prevalent unrest presents therefore, a condition of mind to be dealt with. To handle it successfully means that its causes must be carefully understood. Sympathy, as well as intelligence must, therefore, be applied to their examination, if a quick way out of the impending situation is to be found and our country saved the pain and turmoil, sacrifice, waste, ruin and class bitterness, which an unintelligent and unsympathetic handling of the situation would involve.

CAUSES OF INDUSTRIAL UNREST

Among the causes of industrial unrest in the United States at the present time there are two which seem especially worthy of public attention, particularly among the employing classes:

1. The declining value of the dollar with the high and advancing cost of living; and,

2. The absence of a national and constructive policy with respect to labor.

Indeed, these two are largely intertwined. Cost of living has developed into much more than a cost of living problem because until quite recently no definite and competent program for dealing with it has been undertaken. The fact that the Government and the Nation have drifted without admitting that there was an industrial situation which ought to be studied and remedied as quickly as conditions would permit, not unnaturally established in the minds of the working classes, many of whom were suffering real hardships because of high and advancing prices, a feeling that now that the war was won and over, their condition and needs had ceased to be a matter of national concern. As a result the war has left us not only with a cost of living problem, but also with the problem of restoring the faith of the average working man in the disposition of the country at large to concern itself with his welfare.

It is time, therefore, that earnest thought should be given to the present industrial unrest. Something must be done to help labor meet the cost of living problem, but beyond that something substantial must be done to put labor in a better frame of mind on the larger question of its future ecomomic position. We need a constructive policy in labor matters. Labor should be given an objective - an attractive objective - toward which to work in order that hope and contentment, as well as wages, may be its portion in American industry.

HIGH COST OF LIVING

So far as the unrest in the United States is economic in character, the high and rising cost of living may be said to be the chief source of irritation. During the war the acute situation produced by rising prices was endured on the whole with fortitude and patience, because, it was said,"We are at war", and in the confident expectation that the war would be brief and that the close of hostilities would bring a lower level of prices and a great and progressive improvement in the cost of living situation. As a matter of fact, barring the first months following the armistice, the price situation as it affects the cost of living (that is to say the prices of articles of general consumption such as food, clothing, fuel, light and housing), has grown worse instead of better.

Why is this? What is it that is keeping prices up? These questions must be answered before the real nature of the cost of living problem can be understood and a solution undertaken.

In general the answer is that the continuance of many of the influences that raised prices during the war is responsible for the continuance of high prices after the war, with a new aggravation added in the shape of profiteering.

PROFITEERING

The extent to which profiteering, that is to say hoarding and speculative holding of goods for a rise of prices, is responsible for recent price advances in the United States is not, of course, a matter that can be statistically determined. It is, however, a matter of widespread belief, supported in part by official investigation of the practices pursued by certain industries since the armistice, that prices of many articles of ordinary consumption are appreciably higher than economic conditions warrant. The recent declines of retail prices in several lines confirm this impression. Some mitigation of the cost of living situation may be expected from the elimination of control of profiteering practices, but it seems not improbable that when all is accomplished that can be accomplished through investigation, publicity and prosecution, to effect a reduction of prices, the country will still be left with a price situation which will be far from satisfactory and which will indicate that the causes of the high cost of living which have got to be reached in order to solve the cost of living problem lie deeper.

Indeed the increase in profiteering itself is a thing which needs explanation. After all why is there so much more profiteering than ordinarily? Profiteering is an old instinct of human nature. Cupidity or the desire to make all the profit that can be made out of a situation by pushing prices to the limit of endurance is no new trait of man. Human nature has not been changed in this particular by the war. The war has simply afforded an opportunity for a more active and aggressive assertion and play of certain human traits.

The seller has always sought to get for his goods all the money that he could. The buyer has always sought to get for his money all the goods that he could. As a rule, buyer and seller are matched in intelligence, acumen and intensity of desire. From their action there have usually resulted prices that could properly be regarded as the outcome of market competition. Sometimes, however, conditions are such that a buyer is in the position of vantage; for example, when the outlook indicated that prices would fall. There are other times when the conditions are such that the seller is in a position of vantage; for example, when the outlook was for a rise of prices. It is rising prices which induce hoarding, speculation and profiteering. Ordinarily buying for a rise in such circumstances undoubtedly tends to accelerate or aggravate the rise of prices. But is is always a question whether speculation and profiteering are more the cause of high prices than they are the effect of high prices.

When all is said and the greater economic truth is stated, the fact is that prices make themselves far more than they are made. Profiteering has flourished in the United States and elsewhere in recent years because the price situation has been favorable to it. The profiteer is a creature of conditions. He does not make conditions, though he frequently does much to make them worse. Like the poor, the profiteer is always with us ever ready to go when the going is good. To say that prices are high because of profiteering explains little, and does not get us far on the way toward a solution of the cost of living.

Our high prices are far more an economic fact than a criminal fact. Their correction will therefore be found more through the processes of industry than through the processes of the courts. Prosecution of profiteers will do something; it is to be hoped will do much to improve the situation, but prosecution of industry will do more. Prosecution of profiteers may lower prices but it will not produce goods. What is most wanted at the present juncture is not alone lower prices but more goods at lower prices. So far as the price problem has given rise to a cost of living problem it is mainly a problem in production. The causes of the existing situation are mainly economic and the remedies must therefore be mainly economic.

WAGES AND PRICES

Much the same may be said of wages as a cause of the high cost of living. There is a good deal of misapprehension particularly among employers of labor of the relation between wages and prices. Looked at from the point of view of the individual employer of labor wages is an element of expenses of production which regulate the price which must be received for the product if the business enterprise is to succeed. It is not surprising therefore, that the employer who ordinarily reason from wages to prices, should conclude, when both prices and wages are rising, that prices are rising because wages are rising. There is, however, little foundation for this view of the connection between high wages and high prices, looking at the matter as an economic condition rather than a business condition.

When are wages high? The employer does not employ workmen and pay wages for the fun of it. He employs men and raises their wages only as it pays him to do so. It pays him to do so when prices are rising and profits are following in the wake. High wages are rather, therefore, the resultant of rising prices than the cause, and there is far less of a vicious circle in the relation of wages and prices than is currently alleged. As a general proposition the economic sequence which results in high wages may be stated briefly as follows: Brisk trade, intensive demand for goods, rising prices, increasing profits resulting in increased demand for labor and rise of wages. This sequence, I think, represents the approximate relationship between the movement of prices and the movement of wages in the United States during the years 1914 to 1919.

Both prices and wages (which are the price of labor), have risen from the same general causes. They do not explain one another. They are not themselves, either one or the other, a primary cause but the effects and the expression of fundamental forces governing

1. The money and credit demand for goods, and

2. The supply of goods.

WHAT HIGH PRICES ARE DUE TO

The more the matter is studied the clearer it is that the high prices which developed with the European war in 1914, and which are still with us as a heritage of the war, are simply to be regarded as an extreme case of the working of the time-old economic law of demand and supply. In the United States, as the world over, through the past five years, intensified demand (credit as well as economic demand), for goods and an inadequate supply of goods have put up and kept up prices and given us the acute cost of living situation so widely complained of.

Turning then to the major influences in the price changes which have taken place in the five years, there are three that stand out conspicuously. They are:

1. The excessive demand by belligerent governments for war supplies both before and after our entry into the war.

2. The excessive expansion of banking credit.

3. Shortage of supplies in many lines, due to

    (a) Wasteful consumption and loss of goods

    (b) Heavy loans of capital and exportations of goods, and

    (c) Slackening of production.

Taking the five year period, 1914 to 1919, as a whole, the most persistent single influence affecting prices has been the expanding state of credit.

Taking the period before our entry into the war the enormous demand of Europe for American war supplies, aided by easy credit conditions in the United States, was the most important influence affecting prices.

Taking the period since our entry into the war, a factor of equal importance with those already enumerated was the inability of our industry immediately to reorganize itself to meet the vast requirements of the Government for war supplies of one kind or another for the use of its armed forces. Coupled with this and aggravating the situation was the heavy drain of goods from the United States for the use of the Armies and the civilian populations of the nations with which we were associated for which no goods, at any rate in anything like an equivalent amount, were received in return.

Taking the most recent period, the fiscal year 1919, which includes eight months following the armistice, the active and immediate causes of rising prices are the greatly increased shipment and sale of merchandise on credit to Europe, particularly foodstuffs and manufactures ready for consumption, slackening of production, diminished economy of consumption and, as already noted, profiteering and the speculative holding of goods for a rise.

CREDIT EXPANSION

The form that credit demand (and expansion) has taken in the United States has been banking credit in the shape of bank deposits. Expansion of the currency has played a very subordinate role. It is no exaggeration to say that expansion of the currency has been a consequence rather than a cause of our high prices. Wholesale prices began to rise sharply in the United States with heavy demands for our goods from Europe shortly after the beginning of the war in 1914. Credit was expanded to meet the requirements of export industries. Prices at wholesale rose and kept on rising. Retail prices had to follow suit, and thus there was called into existence an increased amount of pocket money to accommodate the needs of the community.

So far as expansion of the purchasing medium of the country is responsible for our great rise of prices it has been and is purchasing medium in the form of bank deposit credit and not in the form of the Federal Reserve Note.

Commercial bank deposit credits in the United States have increased from $16,264,000,000 to $30,099,000,000 an increase of about 85 per cent, between the dates of June 30, 1914, and June 30, 1919. Loans, discounts and investments of the same institutions have increased in the same period from $15,819,000,000 to $29,765,000,000 or about 88 per cent. A large part of the increase in the loan and investment account is made up of war securities and war loan paper. This is estimated to amount to as much as from six to seven

Treasury needs have been the chief factor in our credit expansion. The situation of the United States obliged the government to borrow money faster than the rate of saving of the community could sustain. The result was reliance on banking credit to make up the deficiency; and thus the resulting rise of prices may be described in its economic effects as a method of forcing economy and saving on the community, or large sections of the community, because most people buy less and consume less as prices rise.

As the present volume of undigested Liberty Bonds is absorbed out of savings, the investment account of the banks which is now swollen because of the large amount of war securities they are carrying will diminish and with the diminution will go a decline in the volume of bank deposits, following which will come a decline in the volume of currency in circulation. Prices will then fall and the cost of living decline.

Working to the same effect in bringing about a lowering of prices will be the expected diminution in the rate at which the United States have been exporting goods to Europe on credit. The large volume of exports we have been sending out of the country in excess of what we have received as imports has been one of the great determining factors in our rising cost of living through the last five years and especially in the last year.

HEAVY EXPORTS TO EUROPE.

A comparison of our export trade for the five years since the beginning of the European war, and particularly the period following our entrance into the war, with conditions in the five years preceding the breaking out of the European war yields some very instructive results.

Our exports of domestic merchandise for the years 1910 to 1914, inclusive, amounted to $10,652,143,234, or an annual average of $2,130,428,647. For the five years, 1915 to 1919, inclusive, our domestic exports amounted to $26,128,183,680, (an annual average of $5,225,636,736), of which $19,139,827,636 represents export of domestic merchandise for the years 1917, 1918 and 1919, and $7,074,011,529 domestic exports for the last fiscal year 1919. Our average annual exports for the five years from the beginning of the war exceeded our average in the earlier period, ~~1914~~ 1910 to ~~1919~~ 1914, by $3,095,208,089, or 145.3 per cent. For the three year period since we entered the war, the amount by which exports exceed those which were normal before the war, is $4,249,513,898, or 199.5 per cent. For the last fiscal year 1919, the excess is $4,943,582,882, or 238.2 per cent.

These comparisons are made on basis of our customs house reports and do not include exports made by the government itself, which constituted a very important addition to our exports in the period since we entered the war. Government exports have been estimated as high as from 30 to 35 per cent of the exports regularly reported by the customs house. Some indication of their volume is given by the returns of the aggregate weight of army shipments for the period June 1917, to October 1918, of 4,897,600 short tons, and of navy shipments for the period May 1917, to December 1918, inclusive, of 1,090,724 net tons.

Of equal significance with the increase of the totals of our export trade in the last five years are figures indicating changes in its composition. Grouping our exports into six great groups, we have:

1. Crude materials for use in manufacturing.
2. Foodstuffs in crude condition and food animals.
3. Foodstuffs partly or wholly prepared.
4. Manufactures for further use in manufacturing.
5. Manufactures ready for consumption.
6. Miscellaneous.

We find that while the first named group, crude materials for use in manufacturing, constituted an average of 33.1 per cent of our annual exports in the five year period, 1910 to 1914, it fell to 14.89 per cent in the five year period, 1915 to 1919. The second group, foodstuffs in crude condition and food animals, rose for the same period from 5.94 per cent to 9.62 per cent. The third group, foodstuffs partly or wholly prepared, rose from 13.84 per cent to 18.11 per cent. The fourth group, manufactures for further use in manufacturing, held its own, being 16.04 per cent in the earlier period, and 16.69 per cent in the latter period. The fifth group, manufactures ready for consumption, rose from 30.71 per cent in the earlier period, to an average of 39.49 per cent in the latter. The sixth group, miscellaneous, rose from .37 per cent in the earlier period, to 1.20 per cent for the latter.

It must be admitted that the comparisons just made for the purpose of showing the increase in the export trade of the country give an exaggerated and distorted view of the export trade as it bears upon the cost of living situation because the volume of our exports is stated in value, not in quantities. The great rise of prices has reflected itself, of course, in a rise in the money value of our exports far in excess of the growth in the physical volume of exports. It nevertheless appears that when the price factor is eliminated in estimating the growth in the volume of our exportations, the quantities of goods we have sent overseas in the past five years are so largely in excess of what was our customary pre-war normal as to constitute a serious deduction from the goods left in the United States available for domestic consumption. For the fiscal year 1915, our exports by quantities show an increase over the average exportations by quantities for the years 1910 to 1914 of about 25 per cent; for the two-year period embracing the fiscal years 1916 and 1917, an increase of over 20 per cent; for the fiscal year 1918, an increase of 9 per cent, and for the fiscal year 1919, an increase of 35 per cent. It is notable that the year which shows the heaviest increase of exports was the last fiscal year of which eight months followed the armistice, and that 35 per cent of our exports in this year consisted of foodstuffs.

REMEDYING THE COST OF LIVING SITUATION

Under this view of the causes of our present difficulties, it is clear that there can be no short cut remedies, and therefore no early prospect of a return to the price situation we had before the war in 1914. Prices may be expected to decline, but the more than one hundred per cent advance which they have scored in the past five years will not be retraced short of at least a similar period, if not, more likely, a period of ten years or more. The most considerable relief in sight may be expected to come with diminishing exportation of foodstuffs and other articles of general consumption to Europe with the termination or, at any rate, reduction in the volume of the credits which Europe has had at its disposal in the American market during the past two years. Food should certainly become cheaper, and so far as food is the most important item making up the budget of the working classes, there should be an appreciable diminution in their cost of living and the cost of living problem therefore find some considerable solution in this way.

The ultimate and complete solution, however, will come only as the volume of purchasing media created in the last five years is reduced and the volume of goods produced is increased. This solution, however, will take time, and in the interim we shall continue to have a more or less acute and troublesome cost of living problem. Some method of dealing with it in a practical manner is therefore one of the first and necessary steps to be taken toward the revival of industry in the United States and the improvement of the industrial situation generally. Until some satisfactory method of dealing with the wage problem as it has been affected by the rising cost of living is worked out there will be unrest, industrial strife and retardation of the processes of industrial recovery that will be costly in their effects to the nation, and costly to the world. The one thing that the United States can not afford at this time is suspension of industry through failure to establish a good working relationship between employers and employed. Some acceptable method of adjusting wages to changes in the cost of living is an obvious first requisite in dealing with the cost of living problem.

While wage earners as a class have not been the only sufferers from the rising cost of living, their ranks undoubtedly embrace a larger number of sufferers than any other class of income receivers. In its most acute form, therefore, the cost of living problem is a labor problem and a wage problem. The problem is partly one as to facts, and partly a question of remedies. Have the great mass of those who are dependent on wage income been compensated for the rising cost of living by commensurate increase of wages? This is the aspect of the cost of living problem that is exciting discussion and unrest in the United States at the present time. This is the real cost of living problem. Besides this, there is an imaginary cost of living problem and a pretended cost of living problem which must be sharply distinguished from the real cost of living problem.

There are a good many people who imagine they are suffering unwarrantably from the advance of prices. For the most part they are those whose incomes in the forms of wages and salaries have risen sufficiently, and in many cases more than sufficiently, to offset the rise of the prices of the things that constituted their customary consumption in prewar days.

increase of money income usually produces a feeling of prosperity even when it is a fictictious prosperity. Many wage earners getting a bigger pay envelope think themselves better off irrespective of the fact that the purchasing power of the dollar has declined in substantially the same ratio as their wages have increased. People in this position are frequently tempted to extravagance. The man who five years ago received a salary of four or five dollars may now be making eight or ten dollars. He is apt to imagine himself rich in consequence and probably is spending a considerable part of his increased money earnings for things that formerly constituted no part of his normal consumption. The retail trade everywhere reports heavy purchases of cheap jewelry, fancy clothing and the like. It is a matter of common observation and remark that no line of business has experienced a brisker demand for its output than the automobile trade and the trade in automobile accessories. Spending heavily on purchases of this kind, the margin that is left over for the purchase of necessaries and real conveniences of life is inadequate at present prices to maintain customary standards. Those who are victims of their extravagance and foolishness then complain that they are suffering from the high cost of living, when the cause of their difficulties is the change in their standard of living. It may be right that the standard of living should be raised, but it does not induce clear thinking but merely confuses the issue not to note the distinction between the real and the fictictious problem. It is the real cost of living problem that concerns the nation at this time.

Unfortunately our sources of statistical information are not yet such that comparisons can be made on an extensive scale between the incomes of different groups (by income) of the wages-receiving class and the prices of the articles that go to make up the customary consumption or normal standard of living of the several groups. What is needed for this purpose is

1. A cost of living index, which shall carefully exhibit and measure changes in the cost of living to labor classified by income groups, and

2. A wage index, which shall exhibit and measure changes in the wage income of these different groups such as will enable a comparison to be made for the purpose of determining whether wages are keeping pace with prices.

The United States Bureau of Labor Statistics has undertaken some important work in this connection which, as it is carried to completion, will yield results which will be of highest usefulness. Among other things, the investigation has been planned, for the purpose,

(a) of determining the cost of all important items of family consumption in all the more important centers of industry in the United States;

(b) of enabling the Bureau of Labor Statistics to compute a cost of living index number that will show variations in total family expenses in the same way as its retail food price index now shows variations in the cost of the family food budget; and

(c) of formulating eventually tentative standard budgets to be used by wage adjustment boards in determining minimum and fair wage awards.

The statistical services of some our States are moving in the same direction. Until the data developed through these sources are available, it will be premature for anyone to venture an authoritative pronouncement upon the relative trend of wages and the cost of living in recent months or years for American industry as a whole.

Such statistical data as are available show that food constitutes from 35 to 45 per cent of the total expenditure of typical wage-earning families consisting of parents and three children under fifteen years of age. The percentage spent for food is larger in the lower income groups but the amount spent for food is larger in the higher income groups. Food prices show an increase of 91 per cent for the six year period from May 15, 1913 to May 15, 1919, the increase for the single year 1918 to 1919 being

27 per cent, and for the month April 15 to May 15, 1919, 2 per cent. Clothing makes up from 15 to 20 per cent of the expenditure of the average wage earning family, the increase in cost of clothing computed from the index number of wholesale prices as compiled by the Bureau of Labor Statistics being about 150 per cent, to June 1919. Rent makes up from 9 to 15 per cent of the expenditure of the average wage earning family, but no satisfactory data are available as to the average increase in rents. But, it is a matter of common observation and complaint that rents have advanced considerably, especially since the signing of the armistice. Fuel and lighting make up from 3½ to 7 per cent of working family expenditures and these items have advanced in price over the 1913 level some 80 per cent. House furnishings make up from 4 to 7 per cent of expenditure, and have advancedin price since 1913, 131 per cent.

It is clear, therefore, that there has been a very marked advance in the prices of all groups of commodities that make up the consumption of the average working class family. Whether wages have kept pace can not be determined on a satisfactory scale until the industrial survey undertaken by the Bureau of Labor, and now nearing completion, is completed and the results published. The preliminary report now in progress will present the basic facts concerned, the hours worked and the earnings received, for a large range of occupations. It will supply a basis on which in time may be erected a wage index for all the important industries of the country distributed throughout its length and breadth.

In the meantime the results of the investigation of the New York State Industrial Commission showing comparative index numbers of average weekly earnings in New York State factories and of retail food prices in the United States since June 1914, are worth noting as of considerable value:

For the year 1914, the index number for wages is 98 as compared with 105, for food; for the year 1915, 101 as compared with 102; for the year 1916, 114 as compared with 115; for the year 1917, 129 as compared with 147; for the year 1918, 160 as compared with 170; for the first quarter of the year 1919, 177 as compared with 179. These figures indicate a rise of 16 per cent in wages for the year 1917, and 6.25 per cent for the year 1918, with the gap almost closed in the year 1919. This shows the situation in the State of New York. How far it is representative is a question.

Data derived from other sources showing the movement of union wage rates in 19 trades in about 12 cities in 1914, to and including May 15, 1918, yield some interesting results especially in the building trades: Bricklayers' wages lagged 21 per cent, carpenters' 18 per cent, cement finishers' 20 per cent, granite cutters' 18 per cent, hod carriers' 9 per cent, painters' 14 per cent and plasterers' 25 per cent. The wages of blacksmiths gained 5 per cent, iron-molders 5 per cent, and machine-makers 10 per cent, while boiler-makers lost 5 per cent. Plumbers' and gas-fitters' wages lagged 20 per cent, structural iron-workers' 14 per cent, stone cutters' 18 per cent, compositors' 25 per cent and electrotypers' 27 per cent. Taking these figures as a whole, they show a considerable lag of wages compared with the advance in the cost of living.

In certain important industries which were stimulated by war conditions a different situation is presented: Real wages in the boot and shoe industry gained 23.5 per cent, in the cotton finishing industry 6 per cent, in the cotton manufacturing industry 13 per cent, in the manufacture of hosiery and underwear 11 per cent, in the silk industry 5 per cent, in woolen manufacturing 9 per cent, and in the iron and steel industry 45 per cent, comparing the closing weeks of December 1914, with the end of September 1918.

So far as these data disclose the situation, it must be said that there has been on the whole a lack of close correspondence of changes of wages with changes in the cost of living. In many cases wages have lagged, in other cases they have overtaken and outrun the rise in the cost of living. There has been no general policy, either public or private, governing the action of industry in the matter of wage adjustment to changed living conditions. All sorts of influences have been at work in determining the outcome; the maintenance of the standard of living has not been the controlling consideration. Tho state of the labor market in different industries has, at times, resulted in increase of wages more than the increase in the cost of living, and at other times wages have lagged. The extent to which different trades were unionized also had much to do with the matter.

These facts and indications, fragmentary as they are, reveal a situation which from every reasonable point of view must be regarded as unsatisfactory. Much as was achieved in certain industries during the war through the action of public or private agency, the maintenance of the standard of living does not occupy the decisive place it should in the determination of wages. Chance and circumstance play too large a role, and principle too little. Wages must be regarded as the first charge of industry, and the maintenance of at least those living standards which were customary before the war must be made secure. The first duty of the nation is to preserve the health and strength of its workers. The standard of living is, therefore, a matter of public and national concern as well as of individual concern. The Nation can not afford, industry can not afford, to run the risk of impairing its working forces through lack of some effective method of adjusting wages to the cost of living. This is in an immediate sense, the most pressing aspect of the cost of living problem with which we are confronted.

Close study should, therefore, be given by different industries in every section of the country to methods of handling the problem in an effective and equitable way. Beginnings have been made in some business and industrial enterprises, but the problem should be taken hold of on a systematic and national scale in order that the needed results shall be achieved. Some mechanism by which wages may promptly be adjusted to changes in the cost of living must be accepted as an essential part of the American wage system. Public sentiment in the United States is rapidly focusing itself upon this principle, and the employer who attempts to escape it, or resist it, is likely to find himself in contempt of public opinion. Such action is particularly urgent in view of the extremely uncertain and disturbed course which prices and the cost of living seem likely to follow for a good many years to come, or until the affairs of the world are once more in a state of settled equilibrium. It will not do to leave the adjustment of wages to changes in the cost of living, either to the slow and uncertain action of the forces of competition, or to the costly and disruptive action of industrial warfare. So far as the strike is a method of securing an adjustment of wages to rising prices it should become an obsolete feature of the American industrial system.

FEDERAL RESERVE BOARD.

STATEMENT FOR THE PRESS

Release for morning papers
Thursday, Sept 25, 1919.

Addressing the American Association of the Baking Industry at Chicago yesterday, Dr. A C. Miller, of the Federal Reserve Board, discussed "The Cost of Living Problem." After defining some of the causes of the present industrial unrest, he said .

"While wage earners as a class have not been the only sufferers from the rising cost of living, their ranks undoubtedly embrace a larger number of sufferers than any other class of income receivers. In its most acute form, therefore, the cost of living problem is a labor problem and a wage problem . The problem is partly one as to facts, and partly a question of remedies. Have the great mass of those who are dependent on wage income been compensated for the rising cost of living by commensurate increase of wages? This is the aspect of the cost of living problem that is exciting discussion and unrest in the United States at the present time. This is the real cost of living problem. Besides this, there is an imaginary cost of living problem and a pretended cost of living problem which must be sharply distinguished from the real cost of living problem.

"Wages must be regarded as the first charge of industry, and the maintenance of at least those living standards which were customary before the war must be made secure. The first duty of the nation is to preserve the health and strength of its workers. The standard of living is, therefore, a matter of public and national concern as well as of individual concern. The Nation can not afford, industry can not afford, to run the risk of impairing its working forces through lack of some effective method of adjusting wages to the cost of living. This is in an immediate sense, the most pressing aspect of the cost of living problem with which we are confronted.

"It must be said that there has been on the whole a lack of close correspondence of changes of wages with changes in the cost of living. In many cases wages have lagged, in other cases they have overtaken and outrun the rise in the cost of living. There has been no general policy, either public or private, governing the action of industry in the matter of wage adjustment to changed living conditions. All sorts of influences have been at work in determining the outcome; the maintenance of the standard of living has not been the controlling consideration. The state of the labor market in different industries has, at times, resulted in increase of wages more than in the increase in the cost of living, and at other times wages have lagged. The extent to which different trades were unionized also had much to do with the matter.

"These facts and indications, fragmentary as they are, reveal a situation which from every reasonable point of view must be regarded as unsatisfactory. Much as was achieved in certain industries during the war through the action of public or private agency, the maintenance of the standard of living does not occupy the decisive place it should in the determination of wages. Chance and circumstance play too large a role, and principle too little. Close study should, therefore, be given by different industries in every section of the country to methods of handling the problem in an effective and equitable way. Beginnings have been made in some business and industrial enterprises, but the problem should be taken hold of on a systematic and national scale in order that the needed results shall be achieved. Some mechanism by which wages may promptly be adjusted to changes in the cost of living must be accepted as an essential part of the American wage system. Public sentiment in the United States is rapidly focusing itself upon this principle, and the employer who attempts to escape it, or resist it, is likely to find himself in contempt of public opinion. Such action is particularly urgent in view of the extremely uncertain and disturbed course which prices and the cost of living seem likely to follow for a good many years to come, or until the affairs of the world are once more in a state of settled equilibrium. It will not do to leave the adjustment of wages to changes in the cost of living, either to the slow and uncertain action of the forces of competition, or to the costly and disruptive action of industrial warfare. So far as the strike is a method of securing an adjustment of wages to rising prices it should become an obsolete feature of the American industrial system.

"Unfortunately," he said, "our cources of statistical information are not yet such that comparisons can be made on an extensive scale between the incomes of different groups (by income) of the wages-receiving class and the prices of the articles that go to make up the customary consumption or normal standard of living of the several groups. What is needed for this purpose is

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"The United States Bureau of Labor Statistics has undertaken some important work in this connection which, as it is carried to completion, will yield results which will be of highest usefulness.

"Such statistical data as are available show that food constitutes from 35 to 45 per cent of the total expenditure of typical wage-earning families consisting of parents and three children under fifteen years of age. The percentage spent for food is larger in the lower income groups but the amount spent for food is larger in the higher income groups. Food prices show an increase of 91 per cent for the six year period from May 15, 1913 to May 15, 1919, the increase for the single year 1918 to 1919 being 27 per cent, and for the month April 15 to May 15, 1919, 2 per cent. Clothing makes up from 15 to 20 per cent of the expenditure of the average wage earning family, the increase in cost of clothing computed from the index number of wholesale prices as compiled by the Bureau of Labor Statistics being about 150 per cent, to June 1919. Rent makes up from 9 to 15 per cent of the expenditure of the average wage earning family, but no satisfactory data are available as to the average increase in rents. But, it is a matter of common observation and complaint that rents have advanced considerably, especially since the signing of the armistice. Fuel and lighting make up from 3½ to 7 per cent of working family expenditures and these items have advanced in price over the 1913 level some 80 per cent. House furnishings make up from 4 to 7 per cent of expenditure, and have advanced in price since 1913, 131 per cent.

"It is clear, therefore, that there has been a very marked advance in the prices of all groups of commodities that make up the consumption of the average working class family. Whether wages have kept pace can not be determined on a satisfactory scale until the industrial survey undertaken by the Bureau of Labor, and now nearing completion, is completed and the results published. The preliminary report now in progress will present the basic facts concerned, the hours worked and the earnings received, for a large range of occupations. It will supply a basis on which in time may be erected a wage index for all the important industries of the country distributed throughout its length and breadth.

"There are a good many people, however, who imagine they are sufferring unwarrantably from the advance of prices. For the most part they are those whose incomes in the forms of wages and salaries have risen sufficiently, and in many cases more than sufficiently, to offset the rise of the prices of the things that constituted their customary consumption in prewar days. Increase of money income usually produces a feeling of prosperity even when it is a fictitious prosperity. Many wage earners getting a bigger pay envelope think themselves better off irrespective of the fact that the purchasing power of the dollar has declined in substantially the same ratio as their wages have increased. People in this position are frequently tempted to extravagance. The man who five years ago received a salary of four or five dollars may now be making eight or ten dollars. He is apt to imagine himself rich in consequence and probably is spending a considerable part of his increased money earnings for things that formerly constituted no part of his normal consumption. The retail trade everywhere reports heavy purchases of cheap jewelry, fancy clothing and the like. Spending heavily on purchases of this kind, the margin that is left over for the purchase of necessaries and real conveniences of life is inadequate at present prices to maintain customary standards. Those who are victims of their extravagance and foolishness then complain that they are suffering from the high cost of living, when the cause of their difficulties is the change in their standard of living. It may be right that the standard of living should be raised, but it does not induce clear thinking but merely confuses the issue not to note the distinction between the real and the fictitious problem. It is the real cost of living problem that concerns the nation at this time.

Analyzing the causes of present high prices, Dr. Miller said:

"Both prices and wages (which are the price of labor) have risen from the same general causes. They do not explain one another. They are not themselves, either one or the other, a primary cause but the effects and the expression of fundamental forces governing

1. The money and credit demand for goods, and
2. The supply of goods.

"The more the matter is studied the clearer it is that the high prices which developed with the European war in 1914, and which are still with us as a heritage of the war, are simply to be regarded as an extreme case of the working of the time-old economic law of demand and supply. In the United States, as the world over, through the past five years, intensified demand (credit as well as economic demand), for goods and an inadequate supply of goods have put up and kept up prices and given us the acute cost of living situation so widely complained of.

"Turning then to the major influences in the price changes which have taken place in the five years, there are three that stand out conspicuously. They are:

1. The excessive demand by belligerent governments for war supplies both before and after our entry into the war.

2. The excessive expansion of banking credit.

3. Shortage of supplies in many lines, due to

   (a) Wasteful consumption and loss of goods
   (b) Heavy loans of capital and exportations of goods, and
   (c) Slackening of production.

Taking the five year period, 1914 to 1919, as a whole, the most persistent single influence affecting prices has been the expanding state of credit.

"Taking the period before our entry into the war the enormous demand of Europe for American war supplies, aided by easy credit conditions in the United States, was the most important influence affecting prices.

"Taking the period since our entry into the war, a factor of equal importance with those already enumerated was the inability of our industry immediately to reorganize itself to meet the vast requirements of the Government for war supplies of one kind or another for the use of its armed forces. Coupled with this and aggravating the situation was the heavy drain of goods from the United States for the use of the Armies and the civilian populations ofthe nations with which we were associated for which no goods, at any rate in anything like an equivalent amount, were received in return.

"Taking the most recent period, the fiscal year 1919, which includes eight months following the armistice, the active and immediate causes of rising prices are the greatly increased shipment and sale of merchandise on credit to Europe, particularly foodstuffs and manufactures ready for consumption, slackening of production, diminished economy of consumption and profiteering and the speculative holding of goods for a rise.

"The form that credit demand(and expansion) has taken in the United States has been banking credit in the shape of bank deposits. Expansion of the currency has played a very subordinate role. It is no exaggeration to say that expansion of the currency has been a consequence rather than a cause of our high prices. Wholesale prices began to rise sharply in the United States with heavy demands for our goods from Europe shortly after the beginning of the war in 1914. Credit was expanded to meet the requirements of export industries. Prices at wholesale rose and kept on rising. Retail prices had to follow suit, and thus there was called into existence an increased amount of pocket money to accommodate the needs of the community.

"So far as expansion of the purchasing medium of the country is responsible for our great rise of prices it has been and is purchasing medium in the form of bank deposit credit and not in the form of the Federal Reserve Note.

"Commercial bank deposit credits in the United States have increased from $16,264,000,000 to $30,099,000,000 an increase of about 85 per cent, between the dates of June 30, 1914, and June 30, 1919. Loans, discounts and investments of the same institutions have increased in the same period from $15,819,000,000 to $29,675,000,000 or about 88 per cent. A large part of the increase in the loan and investment account is made up of war securities and war loan paper. This is estimated to amount to as much as from six to seven billions of dollars.

"Treasury needs have been the chief factor in our credit expansion. The situation of the United States obliged the Government to borrow money faster than the rate of saving of the community could sustain. The result was reliance on banking credit to make up the deficiency; and thus the resulting rise of prices may be described in its economic effects as a method of forcing economy and saving on the community, or large sections of the community, because most people buy less and consume less as prices rise.

"As the present volume of undigested Liberty Bonds is absorbed out of savings, the investment account of the banks which is now swollen because of the large amount of war securities they are carrying will diminish and with the diminution will go a decline in the volume of bank deposits, following which will come a decline in the volume of currency in circulation. Prices will then fall and the cost of living decline.

"Working to the same effect in bringing about a lowering of prices will be the expected diminution in the rate at which the United States have been exporting goods to Europe on credit. The large volume of exports we have been sending out of the country in excess of what we have received as imports has been one of the great determining factors in our rising cost of living through the last five years and especially in the last year.

"Under this view of the causes of our present difficulties, it is clear that there can be no short cut remedies, and therefore no early prospect of a return to the price situation we had before the war in 1914. Prices may be expected to decline, but the more than one hundred per cent advance which they have scored in the past five years will not be retraced short of at least a similar period, if not, more likely, a period of ten years or more. The most considerable relief in sight may be expected to come with diminishing exportation of foodstuffs and other articles of general consumption to Europe with the termination or, at any rate, reduction in the volume of the credits which Europe has had at its disposal in the American market during the past two years. Food should certainly become cheaper, and so far as food is the most important item making up the budget of the working classes, there should be an appreciable diminution in their cost of living and the cost of living problem therefore find some considerable solution in this way.

"The ultimate and complete solution, however, will come only as the volume of purchasing media created in the last five years is reduced and the volume of goods produced is increased. This solution, however, will take time, and in the interim we shall continue to have a more or less acute and troublesome cost of living problem. Some method of dealing with it in a practical manner is therefore one of the first and necessary steps to be taken toward the revival of industry in the United States and the improvement of the industrial situation generally. Until some satisfactory method of dealing with the wage problem as it has been affected by the rising cost of living is worked out there will be unrest, industrial strife and retardation of the processes of industrial recovery that will be costly in their effects to the nation, and costly to the world. The one thing that the United States can not afford at this time is suspension of industry through failure to establish a good working relationship between employers and employed.

"Cost of living has developed into much more than a cost of living problem because until quite recently no definite and competent program for dealing with it has been undertaken. The fact that the Government and the Nation have drifted without admitting that there was an industrial situation which ought to be studied and remedied as quickly as conditions would permit, not unnaturally established in the minds of the working classes, many of whom were suffering real hardships because of high and advancing prices, a feeling that now that the war was won and over, their condition and needs had ceased to be a matter of national concern. As a result the war has left us not only with a cost of living problem, but also with the problem of restoring the faith of the average working man in the disposition of the country at large to concern itself with his welfare.

"It is time, therefore, that earnest thought should be given to the present industrial unrest. Something must be done to help labor meet the cost of living problem, but beyond that something substantial must be done to put labor in a better frame of mind on the larger question of its future economic position. We need a constructive policy in labor matters. Labor should be given an objective - an attractive objective - toward which to work in order that hope and contentment, as well as wages, may be its portion in American industry."

FEDERAL RESERVE BOARD

WASHINGTON

September 23, 1919.
X-1679

Subject: Announcement of Admission to Membership of State Banks.

Dear Sir:

The Board has decided that no public announcement will be made of the admittance of State banks to the Federal Reserve System until such banks have made payment for their capital stock.

It is desirable, however, that there be no undue delay in announcing the admission of new State bank members, and it is therefore requested that when State banks have made payment for their capital stock, you wire the Board, using the following code word:

NEWCOME: (Blank State Bank, Smithtown, New York) has today paid for its subscription to capital stock of this bank.

Very truly yours,

Secretary.

X-1680

BALLOT

Federal Reserve Board

For representative of employes of the Federal Reserve Board on the Central Committee to cooperate with the Joint Commission on the Reclassification of Salaries.

(Indicate hereon the name of your choice as representative)

VOTE FOR ONE

Signature of employee.

September 1919.

X-1681

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release
Wednesday, September 24, 1919.

Announcement is made of the appointment of the following directors of the Nashville Branch of the Federal Reserve Bank of Atlanta:

Mr. W. H. Hartford,

Mr. P. M. Davis,

Mr. J. E. Caldwell,

Mr. E. A. Lindsey,

Mr. T. A. Embry.

The first two gentlemen have been appointed by the Federal Reserve Board, while the last three are the appointees of the Federal Reserve Bank of Atlanta. Mr. W. H. Hartford of Nashville, who is a Class B Director of the Federal Reserve Bank of Atlanta, has been designated Chairman of the Branch Board of Directors. Mr. P. M. Davis is Vice President of the American National Bank at Nashville, Tennessee. Mr. J. E. Caldwell is President of the Fourth and First National Bank of Nashville, and also President of the First Savings Bank and Trust Company of Nashville. Mr. E. A. Lindsey is President of the Tennessee Hermitage National Bank, Nashville; and Mr. T. A. Embry is President of the Farmers National Bank, Winchester, Tennessee.

FEDERAL RESERVE BOARD

WASHINGTON

September 25, 1919.
X-1682

Subject: Use of leased wire facilities.

Dear Sir:

In order to insure uniformity of reports from Federal Reserve Banks covering operations over the leased wire system, as requested in the Board's letter X-1624, dated July 23, 1919, there are enclosed twenty-five copies of blank forms for use of your bank in furnishing such information to the Board monthly.

Very truly yours,

Assistant Secretary.

LETTER SENT TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS
EXCEPT KANSAS CITY.

X-1682a

FEDERAL RESERVE BANK OF ______________________

Report of leased wire operations during month of __________, 19

A. INTRADISTRICT BRANCH WIRE LINES.

1. Number of messages and words transmitted by head office to branch offices, and by branch offices to head office and other branch offices:

	No. messages	No. words
By head office to branches	______	______
By branches to head office and other branches	______	______
Total	______	______

2. Expenses:

	Branch	Branch	Branch	Branch	Branch	Total
Wire rental	____	____	____	____	____	____
Operators' salaries	____	____	____	____	____	____
Head office expense chargeable to branch wire lines	____	____	____	____	____	____
Other expense	____	____	____	____	____	____
Total	____	____	____	____	____	____

B. CLASSIFICATION OF MESSAGES HANDLED BY HEAD OFFICE AND BRANCH OFFICES.

1. Federal Reserve Board:

	No. messages	No. words
(a) Gold Settlement clearings and transfers	______	______
(b) Daily and weekly reports of condition	______	______
(c) All other reports and messages	______	______
Total	______	______

	No. messages	No. words
2. Treasury Department and Fiscal Agency. (Sent to or for account of Treasury)		

3. Wire transfers of funds (exclusive of Treasury transfers)

(a) Number and dollar amount of transfers by days

Date	No. messages	Amount
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		

B. 3. (a) (Continued)

Date	No. messages	Amount
23		
24		
25		
26		
27		
28		
29		
30		
31		
Total		
Daily average		

(b) Subdivision showing transfers for member banks and those for account of customers of member banks:

	No. messages	Amount
Members		
Customers of members		

(c) Subdivision showing amount transferred to each Federal Reserve Bank:

	F. R. Bank of	Amount
1.	Boston	
2.	New York	
3.	Philadelphia	
4.	Cleveland	
5.	Richmond	
6.	Atlanta	
7.	Chicago	
8.	St. Louis	
9.	Minneapolis	

B. 3. (c) (Continued).

	F.R.Bank of	Amount
10.	Kansas City	
11.	Dallas	
12.	San Francisco	
Total		

(d) Number of member banks making wire transfers during month

(e) Name and location of member banks transferring $500,000 or more during month, giving total number and total amount transferred:

NOTE: Please show this item on separate schedule, in form given below.

Bank	Location	Number of transfers	Amount of transfers
Total			

4. Other messages between Reserve Banks (messages and words)

No. messages	No. words.

FEDERAL RESERVE BOARD

WASHINGTON

September 25, 1919.
X-1683

SUBJECT: Examination of State Member Banks.

Dear Sir:

Referring to the Board's letters of January 26, and December 24, 1918, (X-677 and X-1327, respectively), concerning the subject mentioned above, it is requested that a statement be submitted on September 30, 1919, containing the following information in regard to State member banks in your Federal Reserve District:

1. Name of each State member bank.
2. Date of last examination (As shown by your records on September 30).
3. Total resources when last examined.
4. Character of examination:
   (a) Reserve Bank Examiners.
   (b) State authorities.
   (c) Clearing House Examiners.
   (d) Joint - Reserve Bank and State Examiners.
   (e) Joint - Reserve Bank and Clearing House Examiners.

It is requested that the institutions be grouped by the months in which they were last examined. With a view to securing uniformity in the reports submitted, an outline of headings is attached.

Very truly yours,

Secretary.

LETTER SENT TO CHAIRMAN OF ALL BANKS.

_______________ Federal Reserve District _______________________

Information concerning State member bank examinations submitted Sept. 30, 1919, in response to letter of Federal Reserve Board of Sept. 25, 1919

Name of Bank	Date of last examination 1919	Total resources that date	Character of Examination

(Under "Total Resources that date" give nearest even hundred dollars, and under "Character of Examination" use letters as indicated in "4" of Board's letter of September 25, 1919)

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

Release for morning papers,
Sunday, September 28, 1919.

The Federal Reserve Board announces that, in view of the very large increase in the volume of the work of its staff, it has decided to divide the duties heretofore performed by Mr. J. A. Broderick, recently resigned as Secretary of the Board. Mr. Broderick, in addition to his duties as Secretary, was Chief Federal Reserve Examiner and Chief of the Division of Audit and Examination. Accordingly, the Board makes public announcement of the following appointments:

W. T. Chapman,	Secretary,
R. G. Emerson,	Assistant Secretary,
W. W. Hoxton,	Executive Secretary,
W. W. Paddock,	Chief of Division of Operations and Examination,
J. A. Will,	Chief Federal Reserve Examiner, Western Division,
J. F. Herson,	Chief Federal Reserve Examiner, Eastern Division.

Mr. Chapman, who succeeds Mr. Broderick as Secretary, became connected with the Board's staff upon its organization in 1914 as secretary to Honorable Paul M. Warburg. Upon retirement of Mr. Warburg in August, 1918, Mr. Chapman was assigned to the office of the Secretary of the Board as general assistant, and was appointed Assistant Secretary on September 1, 1918.

Mr. Emerson, who succeeds Mr. Chapman as Assistant Secretary, comes from Haverhill, Mass., is a graduate of New York University and was formerly financial statistician with a leading investment service company in New York. He entered the Board's service as an accountant in the Statistical Division in December, 1917, and subsequently was appointed general assistant in the Secretary's office, with the designation of Acting Assistant Secretary.

Mr. Hoxton will be connected with the administrative work of the Board, performing such duties in connection with technical banking matters as may be assigned to him by the Board. Mr. Hoxton was formerly with the St. Louis Clearing House Association, for eight years as Assistant Manager and ten years as Manager, which latter position he resigned to become Deputy Governor of the Federal Reserve Bank of St. Louis. After four years service as such he resigned to head the acceptance department of an investment banking house in Cleveland, Ohio, whence he comes to join the Board's staff.

Mr. Paddock, who succeeds Mr. Broderick as head of the examination division, is a former National bank examiner, assigned first to the southern New Jersey district, and then with the Chief National Bank Examiner at Philadelphia. In August, 1918, he was appointed examiner by the Federal Reserve Bank of Philadelphia. He resigned from the Philadelphia Bank in the fall of 1918 to accept appointment as a Federal Reserve Examiner.

Mr. Will and Mr. Herson will be in charge of the field forces of the Board engaged in the examination of Federal Reserve Banks and their branches. Mr. Will's territory embraces the Federal Reserve Banks of St. Louis, Minneapolis, Kansas City, Dallas and San Francisco and their branches, while that of Mr. Herson embraces the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond and Atlanta and their branches. The two forces are combined in the examination of the larger Federal Reserve Banks at New York and Chicago. After an extended banking and accounting experience, Mr. Will became Auditor of the Federal Reserve Bank of St. Louis. He resigned this position and was appointed a Federal Reserve Examiner on August 15, 1918. Mr. Herson was associated for a number of years with one of the largest trust companies in New York, leaving which he was for two years with a private banking house in Montreal, Canada, and London, England. He then became connected with the New York State Banking Department and was appointed a Federal Reserve Examiner in August, 1917.

FEDERAL RESERVE BOARD

WASHINGTON

October 2, 1919.

X-1689

Subject: Report of Committee on advisability of transferring Sub-Treasury Functions to Federal Reserve Banks.

CONFIDENTIAL

Dear Sir:

Please find enclosed, for your confidential information, a tentative draft of report by a sub-committee of the committee appointed by the Secretary of the Treasury to report on the question of the advisability of abolishing the sub-treasuries and of turning over their functions to the Federal Reserve Banks.

Will you be good enough to examine this critically, consulting the Governor and other executive officers of the Federal Reserve Bank, and report at the earliest possible moment any suggestions or criticisms which you desire to make? Please examine carefully each section of the draft of bill, and put in specific form any changes you may think desirable.

Kindly acknowledge receipt.

Very truly yours,

Secretary.

Letter to all Federal Reserve Agents.

Provisions of the Federal Reserve Act with respect to deposit in the Federal Reserve Banks of moneys in the General Fund of the Treasury.

The authority granted to the Secretary of the Treasury under section 15 of the Federal Reserve Act, approved December 23, 1913, relative to the use of the Federal Reserve Banks in conducting the financial transactions of the Government may be summarily stated as follows:

(1) The moneys held in the general fund of the Treasury, except the five per cent. fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal Reserve Banks.

(2) Federal Reserve Banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States.

(3) The revenues of the Government or any part thereof may be deposited in such banks.

(4) Disbursements of the Government may be made by checks drawn against such deposits.

Federal Reserve Banks at present handle the greater portion of the Government's financial transactions.

The regular active national-bank depositaries of the Government located in the same cities with Federal reserve banks were directed by the Secretary to transfer on January 2, 1916 to the respective Federal Reserve Banks in such cities all balances of public moneys held by them to the credit of the Treasurer of the United States.

The Federal Reserve Banks, from and after such date, became active agencies of the Government in the receipt, payment and accounting for a part of the public moneys.

By reason of the facts that (1) the banks and trust companies throughout the United States have had greatly increased financial transactions with the Federal Reserve Banks and their Branches due to the Government Loans, (2) the check clearing system of the Federal Reserve Banks through which approximately twenty thousand banks and trust companies make their check clearings, (3) that clearing house balances in many Federal Reserve and Federal Reserve Branch cities are settled through the Federal Reserve Banks, and (4) other conveniences extended by the Federal Reserve Banks and their Branches to their member and clearing banks, the volume of the Government's financial transactions now handled by the Federal Reserve Banks is such a large part of the total that in the opinion of this Committee there is no longer any necessity for the continuance of the Sub-treasuries of the United States for any purpose.

Financial transactions of the Government performed by Subtreasuries that are not performed by Federal Reserve Banks.

The only Government transactions not now being handled by the Federal Reserve Banks and their Branches that form a part of the transactions of the Subtreasuries may be stated as follows:

(1) Redemption of subsidiary and minor coins of the United States.

(2) Distribution of subsidiary and minor coins.

(3) Payment of Government checks and warrants over the counter.

While the transactions involving the redemption and distribution of subsidiary silver and minor coins are large in the larger Subtreasury cities, yet both can be readily handled by the Federal Reserve Banks and their Branches with greater satisfaction to banks desiring such coins for use or wishing their redemption on account of the advantages of the locations of the Federal Reserve Banks and their Branches as against the locations of (less than one third the same number) the Subtreasuries.

With respect to the payment of Government checks and warrants over the counter, however, it is the opinion of this Committee that with the discontinuance of the Subtreasuries as cash payment points for the use of the public creditors and disbursing officers of the Government, and the continually decreasing number of national-bank depositaries, it is necessary that the Federal Reserve Banks extend facilities in this respect at least equal to the Government agencies that they are replacing. This point is covered in Section 9 of the tentative draft of the bill presented herewith which gives the Secretary of the Treasury authority to require Federal Reserve Banks to perform all duties heretofore performed at the Subtreasuries.

While Section 15 of the Federal Reserve Act does not specifically prohibit the Secretary of the Treasury from depositing in the Federal Reserve Banks the trust funds, yet by limiting the moneys that can be deposited in such banks to the classification of funds specified under the heading of "moneys in the General Fund of the Treasury", it would seem to have been the intent not to make such deposits with the Federal Reserve Banks. These funds can readily be taken care of by the coinage mints and the Assay Office at New York and also the Treasurer of the United States on account of the vault storage space available through the melt of standard silver dollars and sale of the resultant bullion under the terms of the Act of April 23,1918. In order, however, to make provision for unforseen contingencies that may arise in the future with respect to the Federal Reserve Banks on account of deposits in the Treasury for credit in the Gold Settlement Fund and also deposits in the Treasury for the redemption funds required under the Federal Reserve Act for the redemption of Federal Reserve notes, it has been thought best to incorporate into the tentative draft of the bill herewith submitted, a provision that would authorize the Secretary of the Treasury to keep special gold deposits with the Federal Reserve Banks.

It will be recalled that the amendment to the Federal Reserve Act, under date of June 21, 1917, authorized the Federal Reserve Banks and Federal Reserve Agents to keep the Gold Settlement Fund on deposit with the Treasurer of the United States, such fund to be subject to the check of the Federal Reserve Board and payable in gold. Deposits for credit in the Gold Settlement Fund by the Federal Reserve Banks and the Federal Reserve Agents as well as deposits by Federal Reserve Banks and Agents for credit in the Gold redemption funds for redemption of Federal Reserve notes, have been made with the Assistant Treasurers of the United States under the authority of the Act of June 21, 1917. This has been quite a convenience to the Federal Reserve Banks and the Federal Reserve Agents and it is not believed wise to omit from the present bill discontinuing the Subtreasuries, some provision that will continue such conveniences. This, it is believed, is fully covered in Section 7 of the proposed draft of bill discontinuing Subtreasuries.

Federal Reserve Banks to perform Subtreasury duties without reimbursement therefor from the Government.

The expenses for the maintenance of the Subtreasury system exclusive of salaries paid to the Assistant Treasurers of the United States are less than $500,000 per annum. It is not believed that the cost to the Federal Reserve Banks of performing the Subtreasury duties will equal this sum, by reason of the fact that such banks necessarily maintain at present organizations which handle similar duties in almost every respect. Also, it is not thought wise that the Federal Reserve Banks should demand of the Government reimbursement for expenses incurred when taking over the duties performed by the Subtreasuries due to the fact that it will be practically impossible to separate such functions from the normal functions performed by the Federal Reserve Banks in connection with their duties as depositaries of public moneys and fiscal agents of the United States. When distributed among the twelve Federal Reserve Banks and their Branches the increased cost to any one Federal Reserve Bank or Branch will not, it is believed, be sufficient to cause any unnecessary or unusual hardship. Replies received by this Committee from the several Federal Reserve Banks relative to absorption by them of these costs without specific reimbursement by Congress, have indicated their willingness to accept the Subtreasury duties without reimbursement.

Date for proposed act authorizing discontinuance of Subtreasuries to be effective.

By reason of the facts that (1) the Federal Reserve Banks have not at present sufficient accomodations, including vaults, for the additional work that may be placed on them in the event of the discontinuance of the Sub-Treasuries, (2) that several of such Banks have in contemplation the erection of their own buildings and (3) that appropriations for the maintenance of the Sub-Treasuries to the close of the fiscal year 1920 have been made, it is recommended that the discontinuance of the Sub-Treasuries be not made effective until the close of business on June 30,1921.

Subtreasury buildings owned by the Government.

The only buildings owned by the Government that are used exclusively for subtreasury functions are those at New York and San Francisco. While it is believed that the coinage Mints and the Assay Office at New York will provide sufficient vault space for the storage of the Trust Funds, it is recommended that the above mentioned buildings be not assigned to other uses until the Trust Funds are effectively transferred.

In view of the fact that it is proposed to have the Federal Reserve Banks take over the duties now performed by the Sub-treasuries without compensation from the Government, it is deemed just and proper that all equipment now in use by the several Sub-treasuries belonging to the Government shall be turned over to the Federal Reserve Banks without cost to such banks, or such portion thereof as may be desired by the Federal Reserve Banks. All such property not so taken over by the Federal Reserve Banks shall be forwarded to the General Supply Committee for disposition in accordance with existing rules and regulations.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED,

That the Subtreasuries of the United States located at Baltimore, Md., New York, N. Y., Philadelphia, Pa., Boston, Mass., Cincinnati, Ohio., Chicago, Ill., St. Louis, Mo., New Orleans, La. and San Francisco, Calif., shall be discontinued at such date with respect to each such Subtreasury as may be determined by the Secretary of the Treasury, but in no case later than the close of business on June 30, 1921, and thereafter all offices created under existing laws at each such Subtreasury so discontinued shall be abolished. All laws or parts of laws prescribing or defining the duties to be performed by an Assistant Treasurer of the United States at any Subtreasury are hereby repealed.

2. All gold and silver coins and bullion held in such subtreasuries, forming part or all of the Trust Funds to secure outstanding gold certificates, silver certificates and Treasury Notes of 1890, the Gold Reserve Fund to secure United States Notes and Treasury Notes of 1890 and the Gold Settlement Fund held in such Subtreasuries under the provisions of the Act of June 21, 1917, shall be transferred to the Mints of the United States at Philadelphia, Pa., Denver, Colo., San Francisco, Calif., and the Assay Office at New York, N. Y., or to the Treasurer of the United States at Washington, as the Secretary of the Treasury may direct.

3. All paper currency of any kind or description held in such subtreasuries shall be transferred to the Treasurer of the United States at Washington, except, however, such amounts not forming a part of the Trust Funds, may be transferred to the Federal Reserve Banks as the Secretary of the Treasury may direct.

4. All subsidiary silver and minor coins held in such sub-treasuries shall be transferred to the Federal Reserve Banks, or to the Treasurer of the United States at Washington or to the Mints of the United States at Philadelphia, Pa., Denver, Colo., and San Francisco, Calif., and the Assay Office at New York as the Secretary of the Treasury may direct.

5. All replacements of mutilated or unfit United States paper currency and redemptions of United States paper currency and subsidiary silver and minor coins shall hereafter be made by the Federal Reserve Banks and their Branches and the Treasurer of the United States, and subsidiary silver and minor coins may be redeemed at the Mints and Assay Offices of the United States, all in the discretion of the Secretary of the Treasury and under such rules and regulations as he may prescribe.

6. Gold certificates in denominations of ten thoudand dollars now authorized to be issued in the discretion of the Secretary of the Treasury and payable to the order of a specified payee upon a deposit of an equal amount in gold coin or bullion may hereafter be issued, in the discretion of the Secretary of the Treasury, by the Federal Reserve Banks upon transfer to the Treasurer of the United States by such Federal Reserve Banks of an equal amount in gold through check on the Gold Settlement Fund held by the Treasurer of the United States to the credit of the Federal Reserve Board or through gold payments to the Treasurer of the United States or to the Mints and Assay Offices of the United States as the Secretary of the Treasury may direct. For the

purpose of this section the Secretary of the Treasury is authorized to keep such supply of blank certificates in the joint custody of the Federal Reserve Agents and the Federal Reserve Banks as may be necessary.

7. If in his opinion it may be necessary, and notwithstanding the provisions of Section 2 of this Act, the Secretary of the Treasury is hereby authorized to establish and maintain with the Federal Reserve Banks and their Branches special gold deposits of trust, redemption and reserve funds which shall be held by such banks in a special gold account to the credit of the Treasurer of the United States, subject to withdrawal on demand without notice, and no part of such special gold deposits so held shall be counted by the Federal Reserve Banks as part of their gold assets nor included in deposits against which reserves must be maintained, but the total amount shall at all times on their books and in all public statements, be shown separately as a deduction from the total gold holdings of such banks.

8. Hereafter, national banks may make deposits in Federal Reserve Banks and their Branches to the Credit of the Treasurer of the United States for credit in the five per cent. fund to redeem their circulating notes, and similarly deposits may be made by national banks to retire their notes from circulation, and so much of existing provisions of law requiring such deposits to be made with the Treasurer of the United States in lawful money, is hereby repealed. Nothing in this section shall prohibit the Secretary of the Treasury from requiring such deposits

to be made in lawful money if in his opinion such action may be necessary.

9. Except as herein specifically provided, all duties hereafter, performed at the Subtreasuries, shall be performed by the Federal Reserve Banks and their Branches, the Treasurer of the United States, or the Mints and Assay Offices of the United States under such rules and regulations as the Secretary of the Treasury may direct.

10. All employees in the Subtreasuries in the classified Civil Service of the United States who may so desire, shall be eligible for transfer to classified Civil Service positions under the control of the Treasury Department, or if their services are not required in such Department they may be transferred to fill vacancies in any other executive Department with the consent of such Department. To the extent that such employees possess required qualifications they shall be given preference over new appointments in the classified Civil Service under the control of the Treasury Department in the cities in which they are now employed. Nothing in this section shall be construed to prevent the Secretary of the Treasury from making request of the Federal Reserve Banks to take over all employees in the Subtreasuries and to continue payment of not less than their present rates of annual compensation for at least a period of one year from date of July 1, 1921, or to cause such employees during such period to lose their Civil Service status.

11. Hereafter the Federal Reserve Banks or Branch Federal Reserve Banks shall not be required to give bond, either with or without surety for the issuance of duplicate checks or warrants in lieu of such checks or warrants cashed by said banks or branch banks or for coupons cashed, and subsequently lost in transit between said banks and the office of the Treasurer of the United States at Washington, D.C.

12. All laws and parts of laws inconsistent with the provisions of this act are hereby repealed.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

To be released in Sunday morning papers,
October 5, 1919.

During the month of September labor unrest has become the most prominent factor in the business situation. Prevailing unrest found expression in various forms, including demands for improved working conditions, increased wages, and local strikes, and found its culmination in the strike in the steel industry. In spite of the resulting uncertainty injected into the business situation, the customary autumnal swell in the volume of business is noted. The high retail prices prevailing do not appear as yet to have a noticeable effect in checking consumption, and the demand for higher grade products continues. While the official wholesale price index number shows a further rise from 219 in July to 222 in August, some readjustments in wholesale prices have taken place during the present month, involving price reductions in several leading foodstuffs and in various cotton textiles, hides, and other lines in which advances had hitherto been most marked. A spirit of conservatism, however, manifests itself in various trades and greater attention is paid to the probable future trend of prices.

In agriculture the exceptional promise of the spring has not been fulfilled. In particular the winter wheat crop has been considerably below expectations. This, however, is partly made up by the larger yield and harvest of corn. The official forecast for cotton is less favorable than last month, indicating an unusually late crop. The credit demand for crop-moving purposes has been less heavy than was anticipated in many quarters and was easily met by the local banks with the assistance of the Federal Reserve Banks, the latter reporting substantial increases during the month of discounts secured by commercial paper and corresponding increases in their note circulation. Conditions in the New York money market have become easier, but no great increase in the volume of speculation is noted. For the present the labor difficulty overshadows in importance all other factors in the business situation, but a feeling of confidence generally prevails that a satisfactory solution of the present troubles will be found.

Reports received from the several Federal Reserve Agents as of September 20 indicated little change in the business situation from the favorable conditions prevailing during the previous months. Although the labor situation was generally remarked as the principal factor in rendering conditions somewhat unsettled, the feeling was expressed in a number of districts that there was "a growing realization on the part of the workmen that their interests are bound up with the interests of the community as a whole and that increased efficiency resulting in greater productivity" is imperative. In district No. 1 it was stated that "business on the whole continues very active, although manufacturers are cautious in buying raw material ahead of immediate demands, while retail purchasing activity continues apparently unabated". In district No. 2 financial conditions are good, the readjustment of prices is progressing, declines in "certain products at the core of the cost of living" being noted, and the outlook is generally favorable. In district No. 3 "general business continues to show a high degree of activity and all the outward marks of prosperity." In district No. 4 general business, both wholesale and retail, continues active. Reports from all sections of district No. 5 contain "optimistic notes of general business conditions, the few unfavorable comments heard being confined to high living costs, extravagant expenditures for luxuries and nonessentials, and the shortage of farm labor." In district No. 6 it is stated that "activity in all lines of business has continued to exceed in volume activity for the same period of any previous year." In district No. 7 there continues, alike among all classes, a rather marked disposition to "capitalize" present price conditions, in particular to attempt to make the price situation the basis of additional profit, although "business is generally reported as very good."

From district No. 8 it is reported that "a tendency to await developments before making larger commitments for the future has been in evidence and the expansive impetus of the early summer months has been checked in a measure by a growing conservatism." While the effect has been to retard somewhat the growth of commerce and industry in the district, business continues active. In district No. 9 a fair crop of small grains is compensated by the very satisfactory situation with respect to corn and hay, and general business is very good. Conditions in district No. 10 have become somewhat more settled, "the volume of trade is at its highest peak of the year," and the farmer "has found 1919 a far better year than the average", both as to size of crops and prices received. In district No. 11 it is stated that "renewed activity is noted in many lines as the fall season opens," and crops other than cotton are in good condition, although "an atmosphere of conservatism is rather noticeable in business on account of the uncertainties of the future." District No. 12 states that "business conditions have been characterized by activity in manufacturing and increasing activity in nearly every line of wholesale and retail trade."

The labor problem has become the paramount issue during the present month, the question of the cost of living receding from its former position of prime importance. Reports indicate a desire of the workers to secure a larger share in the returns of industry, demands for increased wages being accompanied by demands for shorter hours. At the same time, however, public opinion appears to be awakening to the reaction which increased wages and decreased output may have upon commodity prices, and the vicious circle which may result. Production has been hindered in various lines in which the demand is greatest, both by a shortening of hours, by decreased efficiency, and by disinclination in certain cases to work more than part time. The labor unrest, exhibited frequently heretofore by new demands as to wages, hours, and conditions of employment and by strikes, actual or threatened, in various industries, as well as by the agitation against high prices, has now found expression on a widespread scale in the present strike in the steel industry, and has forced itself sharply upon the public attention. It had been generally hoped in the industry that intervention by the president would result in a postponement of the call for the strike pending the conference of labor and capital called by the president to meet in Washington on October 6, at which the question could be thoroughly discussed.

New wage demands and strikes are frequent in certain districts, prominent among those noted during the present month having also been the "strike" of the Boston police and the formulation of new wage demands by the bituminous coal miners. Although the railroad shopmen have returned to work, the transportation situation continues to occupy a prominent position in public discussion, both in consequence of the consideration of plans for the future operation of the railways and because of the car shortage which is hampering business activity in various lines.

Commodity prices reached new high levels during the month of August, though since the middle of the month a downward movement appears to have set in affecting the prices of some leading staples. The general index number of the Bureau of Labor Statistics for that month stands at 222, as compared with 219 for the month of July. The increase in prices, while again general, was greater for the groups of consumers' and producers' goods than for the group of raw materials, the index number for consumers' goods increasing from 230 to 241, for producers' goods from 205 to 215, and for raw materials from 214 to 217, the corresponding percentages of increase being 4.8, 4.7, and 1.5. Among the subgroups included in the group of raw materials, the index number for forest products shows a considerable increase, from 166 to 193, the numbers for animal products and for mineral products lesser increases, from 233 to 236 and from 177 to 178, respectively, while the index number for the subgroup of farm products alone shows a decrease, from 261 to 251. The prices of a considerable number of commodities on September 1 were lower than on August 1. Since the opening of the present month, price declines in certain foodstuffs, as well as in raw cotton and various cotton textiles and in hides, have continued. The more conservative feeling noted last month still prevails and moderation in naming prices is urged in certain lines, rather than the policy of exacting all that "the traffic will bear." Retailers' sales during the present fall season have been closely watched in some lines in view of the possibility of a curtailment of consumption in consequence of the high prices demanded.

In agriculture, the relatively unsatisfactory situation prevailing with respect to wheat as compared with earlier prospects is compensated by the favorable situation with respect to corn, the bulk of which will soon be past danger of damage, and to hay, the yield of which is much above the average. Corn is of good quality, but in the case of spring wheat the grain is light. In consequence of deficiency of rainfall in district No. 9, all small grains are showing a poor return, with many sections in North Dakota, South Dakota, and Montana reporting "a complete failure." Although good returns have been received by farmers in district No. 10, it is stated that indications point to a decrease in the wheat acreage sown this fall, due partly to unfavorable soil conditions for fall plowing and seeding and partly to "a desire to return to the pre-war plan of diversified farming." District No. 11 "made the heaviest and best corn crop ever raised," and "the grain crop was also large beyond precedent." The harvesting of grain, except corn and rice, is now practically completed in district No. 12

Deficiency of rainfall has damaged tobacco in Kentucky and Ohio, and "the outlook is rather discouraging," while in the Carolinas the crop ranges "from extra good in the interior to very poor in extreme eastern counties." The condition of cotton showed a further decline to 61.4 on August 25, and the lateness of the crop is reflected in the small amount ginned to date. Additional injury has been done in Georgia and Alabama by constant rains and by the boll weevil and heavy damage by insects is reported in Texas, although improvement is noted in the Carolinas. Prices have been irregular, with a downward tendency.

It is reported from Kansas City and Minneapolis that flour mills are operating at almost full capacity. There is good demand for flour, although trade reports indicate that eastern buying has lagged somewhat, and the demand for first class has been especially light. Flour production during August, as reported by the United States Grain Corporation, was 12,042,000 barrels, as compared with 8,339,000 barrels during July. Prices of grain and flour have shown a downward tendency.

With the increase in receipts of raw sugar, meltings have again increased, although the scarcity previously remarked continues and the situation in this industry is reported to reflect the uncertainty as to the conditions under which the new crop will be marketed.

Receipts of cattle at 15 primary markets increased slightly, from 1,527,881 head during July to 1,541,133 head during August, as compared with 1,588,553 head during August, 1918, the respective index numbers being 152,153, and 158. Receipts of hogs show a continued falling off, from 2,411,539 head during July to 1,595,759 head during August, as compared with 1,970,086 head during August 1918, the respective index numbers being 110, 73, and 90. Receipts of sheep again show a considerable increase, being 2,220,229 head during August, corresponding to an index number of 162, as compared with 1,538,767 head during July, corresponding to an index number of 114, and 1,424,677 head during August, 1918, corresponding to an index number of 104. Prices of live stock, in particular hogs, showed a downward tendency. Hogs at Kansas City on September 13 reached a low figure of $16.23 per hundredweight, as compared with $19.50 at the close of August.

The outstanding feature in the iron and steel industry has, of course, been the labor situation. Up to the actual day of the strike a feeling prevailed that it would be avoided, and the industry as a whole, as well as consumers, viewed the situation calmly. While there was a decrease in new buying during the first half of the month as conditions became unsettled, the further increase in production which had been noted for the month of August continued. Pig-iron output increased from 2,428,541 tons during July to 2,743,388 tons during August, the respective index numbers being 105 and 118. Steel-ingot production increased from 2,508,176 tons during July, corresponding to an index number of 104, to 2,746,081 tons during August, corresponding to an index number of 114, while the unfilled orders of the United States Steel Corporation at the close of August were 6,109,103 tons, as compared with 5,578,661 tons at the close of July, the respective index numbers being 116 and 106, although it is reported that new orders booked are running below those of a month ago.

It is reported that the demand for pig iron during the month has not been active, with the chief interest in foundry iron, but stocks are stated to have decreased during August for the third month in succession, and merchant furnaces are well sold over the remainder of the year. A lessened demand, but with little output available for delivery before the first of the year, is reported in the lines which have hitherto been most active, such as steel bars, sheets, wire, tin plate, and lap-weld pipe. Regular consumers in many cases are stated to be well covered in their requirements for the remainder of the year, while there has been relatively little inquiry as yet for the next year's delivery, and manufacturers were not disposed to quote thereon. Certain of the heavier lines, such as rails and shapes and plates, continue to lag, the latter showing weakness in price. Price declines have been noted in the old-material markets since the middle of August. Although the volume of domestic business booked has diminished somewhat the interest in the export field, it is reported that the export agency of the independent producers shortly after the middle of the month requested from their principals an increase in the tonnage allotted to foreign business from the present figure of 10 per cent. of output. The machine-tool industry continues active.

The strike called for September 22nd had varying effects in the several districts. Reports indicate that the strike was most widespread in the Colorado, Cleveland and Chicago Districts, a practical failure in the Birmingham District, while considerable interruption to production was noted in the Pittsburgh District. The fact that for many of the independent producers agreements negotiated annually were in effect, aided materially in maintaining the output of lines for which the demand had been greatest, such as sheets, and tin plate. The production of tubular goods was considerably curtailed, while the manufacture of wire products was stated to have been well maintained at all points except Cleveland. The greatest effect of the strike is reported to be on the heavier products, such as bars, structural shapes, plates and rails, for which demand has hitherto been lightest. The claim is made that the strikers are largely foreign workers, performing the lower classes of work, and that in certain cases the strike on their part has forced out other employees who desired to continue work. The employers have been optimistic and, where a sufficient number of the regular working force has not reported, have suspended operations. Efforts have been made by the workers to enlist the aid of unions covering related trades, such as ore carrying on the Great Lakes. Reports indicate that a strike called for Monday, September 29th, against the leading independents had relatively slight success, likewise efforts at the same time to force a shut down of the leading independent producer at Pittsburgh. At the close of the month, the situation is reported to have been relatively little changed, as far as production was concerned, from conditions prevailing during the early days of the strike.

Production of bituminous coal during August amounted to 42,883,000 tons, as compared with 42,946,000 tons during July, the index numbers for both months being 116. A strong demand for anthracite coal is reported, resulting in increased shipments during August of 6,144,144 tons, corresponding to an index number of 109 as compared with 6,052,334 tons during July, corresponding to an index number of 108. Production is being impeded in certain sections by car shortage and by labor difficulties. Notice has been given by the bituminous miners of the abrogation of the existing wage scale in the central competitive field on November 1, and a conference of operators and miners has been proposed by the latter to meet at Buffalo on September 25, to consider their demands. The output of beehive coke showed a continued increase up to the month of September, 1,808,595 tons being produced during August, as compared with 1,512,178 tons during July. Due to the situation in the steel industry, decreased production has been reported. Furnace coke has declined in price, but foundry coke has been in good demand and price increases have been noted.

Continued quiet is reported in the nonferrous metal industries, with little buying by consumers. In view of the steel strike, a waiting attitude at present prevails. Transactions have consisted in large part of resales by speculators at prices below those asked by producers. The greatest strength has been shown by lead, the price of which increased about the middle of the month. Continued weakness in zinc is reported, demand from the steel industry for both that metal and tin being curtailed in view of the present situation.

It is reported from the Kansas City District that the reduced shipments are due largely to "the difficulty of obtaining cars for shipping out the ore purchased;" but that production grew noticeably during the month of August.

The activity in general manufacturing continues, although markets in certain cases present a quiet appearance due to the fact that some manufacturers are well sold ahead, while in certain quarters a more cautious purchasing policy is noted. The cotton-yarn market during the month has been relatively quiet and prices of medium and coarse count carded yarns have shown a tendency to decline. The demand for cotton goods on the whole has been quiet, and price declines in gray goods are reported. This condition is reflected in the prices obtained at the second Government auction held at New York on September 4, at which most of the fabrics did not bring more than 90 per cent of the current prices, although market prices were well below those prevailing at the close of July, the time of the first auction, when market prices then prevailing were exceeded in some instances. The allotment of finished goods for spring delivery continues, at prices which are regarded as moderate by the trade in view of existing conditions, and the goods are readily taken.

The raw-wool market continues quiet, with prices firm, greatest strength being shown by the finer grades. Worsted yarns are quiet but strong, spinners being sold up to the end of the year and displaying as yet but little disposition to discuss offerings for next season. The market for men's wear woolens is again quiet, such spring offerings as mills have made being largely sold up. Advances in the prices of men's clothing for next spring are announced. The women's clothing industry has been protesting against the high prices of fabrics, and anxiety is expressed lest the next spring season see a restriction of purchasing by the consumer. During the month price reductions by jobbers have been reported in some lines of dress goods. Underwear shows quietness characteristic of the between-season period, mills having a relatively large amount of orders booked, though few openings for the spring season have as yet occurred. A spirit of greater caution on the part of buyers was also noticeable about the middle of the month. The demand for silk and high grade cotton hosiery continues. While silk manufacturers state that they are sold ahead for some time to come, trade reports indicate a noticeable slackening in demand, and staple fall silks are stated to have been offered by jobbers at concessions in price. The industry has been handicapped by labor difficulties, in particular by the Paterson dyers' strike and the recent Pennsylvania strike.

During the past month the feature of the hide and leather markets has been the decrease in the prices of hides which commenced in country hides toward the close of August, although about the middle of the present month prices for both country and packer hides have again become firmer. In leather the influence on prices has been chiefly felt by the less desirable grades, though concessions on both upper and sole leather are reported. The leather market has been quiet for some time, but tanners are well sold up. Manufacturers of shoes continue to operate at capacity, and favorable reports are received from salesmen now on the road. Demand for the better grades of footwear continues.

The customary seasonal swell in the volume of business is noted in many sections. Both wholesalers and retailers report a large volume of business, and the fears which had been expressed that high prices might serve to check demand continue to represent a future possibility rather than a present actuality. From practically all districts it is reported that extravagant purchasing, both in respect to the character and quality of goods, continues unabated. There is a continued heavy demand for automobiles, jewelry, and high-grade wearing apparel. Retailers' stocks are being depleted, and in many cases difficulty continues to be experienced in obtaining merchandise, although in Philadelphia and St. Louis improvement in deliveries is noted. Merchants are, however, operating cautiously in view of present conditions.

Further increase in building activity is reported. Permits issued during August exceeded the figures for July, the previous record month of the present year. The increase has been especially great for New York City where it is stated that "for the first time in several years the amount of building now under way is fully up to normal." In several other districts, however, it is stated to be still below normal, and a further increase is anticipated. Great activity in the industry prevails in spite of high wages and the shortage of both lumber and labor, and higher costs thus far apparently have had little influence in checking construction. Orders and shipments of lumber in general have continued to exceed production, which has been hampered in certain sections by car and labor shortage and weather conditions, and stocks have been further depleted. Recently, however, a decrease in demand has been noted.

Official figures for the month of August show a recovery to $338,000,000 in the export balance from the low figure of $225,000,000 for the month of July, though this amount is still far below the June figure of $624,000,000. As compared with July figures some gains are shown in the exports of breadstuffs, largely wheat, and of mineral oils, while the August exports of meat and dairy products, also of raw cotton, show a further decline both in quantities and values. While June exports to Europe were approximately equal to the entire August exports, a growth of South American business is noted. Iron and steel exports, after a sharp decrease in July, recovered somewhat during August, liberal purchasing by the Orient and South America being recorded. August figures of raw cotton exports show a considerable decrease from those for July. The foreign trade conference to be held at Atlantic City, which has been postponed from September 30 until October 20 in order to permit the attendance of the foreign delegates, will be watched with interest.

A short period of fair activity in the stock market at the opening of the month was succeeded by a period of relative quiet, and public participation has again become a small factor in the general situation. The market has become adjusted to the easier conditions in the money market, and no sharp decreases in the prices of stocks such as characterized the previous month have been noted, while strength has been displayed since the opening of the steel strike. In the bond market the bulk of transactions was in the United States securities, and prices show a rise, while one-year United States certificates of the September 15 issue are selling above par, recent sales being on a $4\frac{1}{4}$ per cent basis. Railroad bonds have been dull, but relatively unchanged in price, and industrial bonds have declined. The absorption of new securities has continued to be much larger than usual for this season of the year. Fluctuations in the call-money rate have again been confined within narrower limits than during previous months, the extreme rates being 4 per cent and 8 per cent. Decline in rates in the New York money market is noted, following heavy redemption of United States certificates of indebtedness, and accompanying a smaller demand than anticipated for crop-movigg funds. Interest rates in general, however, remain firm, a strong demand for funds being noted in certain districts both for crop-moving purposes and to meet the seasonal requirements of manufacturers, although an easier situation is noted in some of the agricultural districts. The board's figures of the volume of check transactions continue at a high level. Foreign exchange rates have shown a downward tendency since the opening of the month, sterling, francs, and lire among the more important exchanges again reaching new low levels, being quoted on September 6 at 4.135, 9.21, and 10.14, respectively. Recovery has since been noted. The banking situation continues to be regarded as sound, credit and collection conditions are good, and failures continue unpredecentedly small and few.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

To be released for morning papers
October 6, 1919.

The Review of the Month for the October Federal Reserve Bulletin, says:

PUBLIC FINANCE IN SEPTEMBER.. Fiscal operations of the Government during September were unusually large and included issues on September 2 of $573,841,500 of five months' 4½ loan certificates, and on September 15 of two series of tax certificates, of which one, for six months, and bearing interest at the rate of 4½%, yielded $101,131,500 and the other, for twelve months, and bearing interest at the rate of 4½%, yielded $657,469,000. An analysis of the amounts taken in each Federal Reserve district of each of the three series is given in the following exhibit:

Federal Reserve District.	Series C-1920	Series T 9	Series T 10	All three series.
Boston	$45,765,500	$5,704,000	$31,752,000	$83,221,500
New York	252,679,000	25,582,500	412,319,000	690,580,500
Philadelphia	27,155,000	5,563,000	54,586,500	87,304,500
Cleveland	39,088,500	8,788,000	53,802,000	101,678,500
Richmond	10,493,500	2,999,500	10,339,500	23,832,500
Atlanta	19,312,000	3,706,000	5,618,000	28,636,000
Chicago	63,193,500	24,097,500	35,172,000	122,463,000
St. Louis	17,975,500	3,614,500	12,232,500	33,822,500
Minneapolis	16,000,000	4,750,000	7,750,000	28,500,000
Kansas City	16,000,000	2,835,000	4,165,000	23,000,000
Dallas	23,179,000	3,491,500	8,232,500	34,903,000
San Francisco	43,000,000	10,000,000	21,500,000	74,500,000
Total	$ 573,841,500	$101,131,500	$657,469,000	1,332,442,000

Redemptions of outstanding Treasury certificates were considerably larger and included:

1. The redemption on September 9 (when a 20% installment on the Victory Loan was due) of outstanding balances of the last two series of certificates issued in anticipation of the Victory Loan and due September 9 and October 7 respectively.

2. The redemption on September 15 (when the third installment of the Income and War profit taxes was payable) of the outstanding balances of two series of tax certificates.

At the beginning of the month it was calculated that the aggregate amount of certificates maturing or called for redemption during the month was in the neighborhood of 1800 millions, and that this amount, somewhat reduced by exchanges and cash redemptions, would be fully covered from the cash in bank, and payments on account of Victory Loan subscriptions, also income and profit taxes due on September 9 and 15 respectively. In his circular of September 8, the Secretary of the Treasury announced that there remained no other maturities of certificates to provide for prior to 1920, as the certificates maturing December 15, of which over 750 millions had been issued, were more than covered by the income and profit tax installment due on that date. The total amount of Treasury certificates outstanding at the end of September is slightly over 3.5 billions (as against $6\frac{1}{4}$ billions on April 30) of which only about 1.6 billions are loan certificates requiring to be refunded.

In view of the success attaining the most recent tax certificate issues, which realized 757.5 millions in the three days during which subscriptions were taken, and the very large cash balance of the Treasury it is expected that no new certificate issues will have to be resorted to during the month of October.

OUTLOOK FOR LIQUIDATION. More than this, material improvement in the financial position of the Treasury and the favorable conditions on which recent issues of loan certificates have been placed carry confirmation of the views expressed by the Secretary of the Treasury in his letter of July 25 and repeated in his letter of September 8 that the borrowing operations incident to the financing of the war would be carried to completion without another great funding loan. So far as long-term government war financing is concerned, it may be said to have come to a close with the Victory Loan. Such financing as is still to be provided can clearly be carried through by short-term issues maturing on tax dates.

The outlook is distinctly encouraging, therefore, for an improvement in the investment status of the outstanding funded securities of the Government and, with it, for an improvement in the loan and investment accounts of the banks. The extent to which the banks of the country subscribed to war bonds of the different issues which they did not intend as a matter of policy to carry permanently as a part of their long-term investments, can not be accurately determined. Neither can the volume of loans made by the banks to customers on account of their subscriptions to government war issues and still outstanding be accurately determined. Details of an estimate made for this purpose and elsewhere presented in the Bulletin indicate that the volume of unabsorbed war securities is undoubtedly large. Liquidation of these war finance investments and loans is clearly a necessary preliminary to any large and genuine improvement in the banking and credit situation. Such liquidation means the purchase of war securities by actual investors. That such liquidation will be stimulated through improvement in the market for government bonds is clear. The recent improvement in the government bond market, fore-shadowing as it probably does a progressive improvement because of increased realization that government long-term financing is over, is, therefore, of good augury for the general banking situation.

Liquidation, in the natural course, of war loan accounts seems likely before long to become a characteristic of the banking trend. Whether such liquidation, however, will result in a lasting decline in the total volume of outstanding bank credits will depend upon the state of industry and trade and upon the movement of prices.

DISCOUNT POLICY. As the period of war financing begins to approach its end, the Federal Reserve Banks will again be in a position to shape their policies without being under the necessity of giving first consideration to the interests or needs of the Treasury. Since the entry of the United States into the great war, the Federal Reserve Banks have from the necessities of the situation utilized their resources in every legitimate way in support of war finance. Their discount policy, in particular, has been shaped, first with a view of facilitating the placement of the great issues of both long-term and short-term obligations brought out by the Treasury, and secondly with a view of stabilizing the market for Liberty Bonds. With these objects in view, differential rates (details of which are elsewhere presented in the Bulletin) have been maintained at Reserve Banks in favor of borrowings by member banks either on their own or their customers' notes, when secured by war obligations.

The effect of this policy of differential rates has reflected itself in the successful placement of five great loans aggregating $21,500,000,000 and many issues of tax and loan certificates. The preferential treatment thus extended to borrowers on government finance account has justified itself not only by the results achieved but, also, was justified by the unquestionable fact that, during the war and until the financial operations incident to the war were completed, the main business of the nation was the efficient prosecution of the war and the first duty of its financial and credit system, therefore, the constant support of the Government's financial program.

The disappearance of the Treasury from the long-term loan market and the rapid reduction in its requirements for short-term accommodation fore-shadows the approach of the time when the differential rate as an agency for furthering the financial operations of the Government may be expected to disappear and Federal Reserve Bank rates once more be fixed solely "with a view of accommodating commerce and business."

<u>EXPANSION AND DISCOUNT RATES</u>. The extent to which Federal Reserve Bank rates may normally be expected to be "effective", in the sense in which that term is used in England and Continental Europe, still remains to be determined. Our experience under the Federal Reserve System is too brief to enable definite conclusions to be drawn with reference to this matter. It seems doubtful, however, whether, for a long time to come and taking the country as a whole, there will be any such close connection of Reserve Bank rates with the volume of credit in use as was to be noted for example in England, the home of central banking, in pre-war days. Our nearest approach to an effective Reserve Bank rate was reached in the closing months of the year 1916.

The habitual temper of the American business community is sanguine and American business is, for the most part, done on liberal margins. The bulk of the requirements for credit facilities comes from industry and trade mainly domestic in its origin and character. Such a condition does not make for sensitiveness to the influence of changing rates such as was the case in England where much business is done on a narrow margin of profit and where banking resources were normally largely employed in the international loan market.

At any rate it seems fairly clear that little desirable restraining influence could have been exercised by Reserve Bank rates in recent months. While repeated tendencies toward speculation of one kind or another have manifested themselves and, at times, given rise to an undesirable situation, there is no reason to believe that an advance of rates would have held these tendencies in check, at any rate no such advances as could have been undertaken without serious injury to legitimate business and desirable enterprise which was entitled to encouragement and support. There is no ready method in reserve banking by which the use of reserve facilities can be withheld from use in undesirable lines of activity without, also, being withheld from use in desirable lines.

The problem of controlling the volume and uses of credit in a country with so much diversity of business interests and business temper as the United States is far from simple and far from certain of solution. Experience alone can determine whether and in what manner a technique of control through rates can be developed which will secure the desired results. The objects to be obtained are however clear and vastly important. They are to regulate the volume and uses of credit so as to give at all times to productive industry the beneficial effects of credit stimulus and support without, however, opening the way to the costly evils of credit and price inflation.

CREDIT AND PRICES: The dependence of prices on credit has had convincing examplification in the past few years. Credit expansion has admittedly been one of the major influences in bringing prices to their present levels. The way in which credit affects prices nevertheless requires discriminating analysis. Of itself and alone, credit can not be said to determine prices. Credit affects prices only as it is used in the purchase and payment of things. It can affect prices, therefore, only when acting in conjunction with other favoring conditions.

There are times when the banking organization has large reserves of credit power and yet industry and trade being "slow" there is little demand for additional credit and consequently little credit is added to the volume of credit in use and consequently little effect is exerted by credit in changing prices. A bank may offer a customer credit but it can not make him take it. It is the credit which is taken and used, not the credit which is offered, that counts in the movement of prices. There are other times when the reserves of credit power are low and yet the demand for credit, because of buoyancy in industry and trade, is large and the volume of credit in use consequently large and its influence on prices unmistakable. The volume of credit in use depends, therefore, quite as much upon the state of trade as it does upon the state of credit. The limits within which the use of credit can be forced by the banks are pretty narrow. Credit, as such, can not, therefore, be said to be the cause of price changes. By enabling and facilitating transactions in the purchase and sale of materials and goods and labor, which require the use of a large volume of purchasing media, credit nevertheless is a decisive factor in the price situation. It is the business of the banking organization to create and supply purchasing media. Thus, at times, when trade is brisk and the spirit of industrial enterprise runs high, the increased volume of credit supplied by the banks sustains and facilitates, if it does not indeed induce, the purchasing movement and thus supports the rise in price levels. Without such an enlargement in the volume of circulating credit or purchasing media in other suitable forms, the accommodation of prices to changing conditions in a period of activity would be impeded. While credit, therefore, can not create a situation which results in high prices, it is equally true that a situation which results in high prices can not eventuate without the assistance and mediation of credit. While there must be a desire for the use of credit before credit can expand, once under way an expansion of trade gets so much encouragement, stimulus and support from an expansion of credit that it is at times difficult to say which is more cause and which is more effect, so closely interdependent and interwoven are the two. Questions of theoretical formulation apart, however, the close connection of credit and prices, or of prices and credit, does not admit of reasonable doubt. What is still to be tested is the kind and measure of control at once effective and beneficial in its effects that can be exercised on credit through the instrumentality of Reserve Bank rates and operations - that is the extent to which the volume and character of Reserve Bank operations will be sensitively responsible to changes of rate.

FEDERAL RESERVE NOTES: The responsiveness of the volume of Federal Reserve note circulation to fluctuating requirements is again in process of proof. A year ago attention was called in the Bulletin to the increase of Federal Reserve notes in the months synchronizing with the crop-moving period. The same phenomenon is now being repeated.

While seasonal requirements thus appear to be the principal cause of short-period changes in the volume of outstanding Federal Reserve notes, the fundamental influence determining their normal volume is the movement of general prices and the volume of outstanding bank credit. No mathematically definite and quantitative relationship between the volume of bank credit and the volume of circulating notes can be specified, but a close connection between the two exists. The connection is indeed so close that an increase in the volume of circulating notes may ordinarily be expected to follow closely upon an increase in the volume of circulating bank credit. This is particularly true in times when a close connection is observed between changes in the volume of bank credit in use and general prices. At such times and generally in times of increasing trade activity, prices at wholesale rise first. In their wake there follows of necessity a rise of retail prices and in consequence a need for increase of circulation. It may be stated as a general proposition, therefore, that changes in the volume of currency in times of expansion follow price changes. They do not precede them. There is, therefore, no foundation in present American experience for the view still sometimes urged that changes in the volume of currency are responsible for changes in prices.

While it may be true as a theoretical proposition that prices at retail could not rise without an increase in the volume of currency and that refusal to supply currency might impede an upward movement of retail prices ((though it is much more likely that refusal to supply currency would lead the community to adopt devices such as due-bills or bearer checks, etc. of small denominations to meet the demand for currency substitutes), it is also true that such a method of controlling prices, if successful, would be at the cost of business disaster.

Prices at wholesale are not appreciably affected by the volume of pocket money. It is the volume of circulating bank credit that influences the trend of wholesale prices. Restriction of bank note issues would not, therefore, act as a direct restraint upon the movement of wholesale prices. Such effects as might conceivably be exerted from this source would at best be indirect and would effectuate itself by what would be tantamount to a breakdown in the organization of trade by making it difficult for retail prices to adjust themselves to changes, proceeding from more or less fundamental influences, in the movement of wholesale prices. The pocket currency of the country is a function of the general money volume of the country's business. To attempt to turn it into an instrument of credit control would be a perversion of the currency function of the banking system.

The correction of the price situation will come in a more natural and economic manner. Prices at retail will fall to more normal levels as prices at wholesale do. Prices at wholesale will fall as savings accumulate and liquidation of the war loan accounts of the banks ensue and reduction advances to the point where it more nearly matches the great increase in the volume of circulating or purchasing media which have been called forth during the successive emergencies of recent years.

The manner in which liquidation of the war loan business of the banks will operate a reduction of currency may be explained. It should also be noted that such liquidation will be most effective if those who are now debtors to the banks on account of Liberty Loan subscriptions take up their obligations out of their own savings. Repayments of funds borrowed from the banks may take the form either of bank deposit credit or of Federal Reserve notes. In the latter case, Federal Reserve notes would begin to accumulate in the hands of the member banks. They would take them to the Reserve Banks for credit to their reserve accounts. Since the reserve accounts of most of the member banks have been brought to their present levels through extensive rediscounting, the return of the Reserve notes to the Reserve Bank would be in effect a reduction of the member bank's liability to its Reserve Bank and a retirement of the Reserve note through such process of redemption. There would thus be a direct reduction in the volume of Federal Reserve notes in circulation and a corresponding reduction of rediscounts. In the former case, where the debtor of the member bank made payment by credit, there would take place a reduction in the first instance of the volume of the member bank's liabilities and in the second instance of the Reserve Bank's deposit liabilities--and, it may be added, on the asset side of the statement a reduction of its discounts. The whole volume of outstanding bank credit would thus contract itself and the same causes that brought about the contraction would result in a lowering of prices which would necessitate a smaller volume of pocket currency and a return flow of redundant currency to the banks and eventually to the Reserve Banks.

Taking things as they are, the bulk of outstanding Federal Reserve notes may properly be regarded as supplied to the borrowing member banks against rediscounts. Expense in the shape of a discount charge is, therefore, entailed to member banks in obtaining increased supplies of notes. While Reserve notes are freely issued to the banks in the sense that no limits have been imposed upon the amount, they are not issued without cost. As increases in the volume of Federal Reserve note currency, particularly in times of expansion, will be obtained against rediscounts or bills payable of member banks, the Federal Reserve note, as long as it is out, involves serious cost to the bank that takes it. The member bank, therefore, has every inducement, as notes accumulate in its hands, to use them in reducing its borrowings from the Reserve Bank. Thus has an automatic machinery been provided, operating by the method of profit and loss, for sending into retirement and redemption such part of the Federal Reserve note circulation of the community as may at any time be in excess of requirements.

The main condition, as already observed, determining currency requirements is the level of prices. The reduction of the volume of the currency is, therefore, a price problem far more than the reduction of prices is a currency problem.

COST OF LIVING PROBLEM. That the high price levels which have been attained in the United States present a grave situation is clear from the attention which current discussion of the causes of industrial unrest is directing to the cost of living problem. It presents the most urgent and immediate phase of the problem of post-war business and industrial readjustment. It promises to remain a persistent phase of post-war conditions unless its nature and cause are understood and a rational economic attitude toward it is developed.

So far as the profiteering practices, which current discussions assume have developed widely and rapidly since the armistice, are responsible for the price aggravations which have been experienced in recent months, some considerable mitigation of the cost of living situation may be expected and, indeed, is already in sight. The activity of "fair price" committees in different parts of the country, local action by the States, investigations and publicity by the Federal Trade Commission and prosecution by the Department of Justice, under Federal law, which, as elsewhere noted, is in process of amendment, are already producing results.

The problem of reducing the cost of living is, however, mainly that of restoring the purchasing power of the dollar. The dollar has lost purchasing power because expansion of credit, under the necessities of war financing, proceeded at a rate more rapid than the production and saving of goods. The return to a sound economic condition and one which will involve as little further disturbance of normal economic relationships as possible will be a reversal of the process which has brought the country to its present pass. In other words, the way in must be the way out. As the way in was expansion of credit at a rate more rapid than expansion of production and saving, so the way out must be an increase in production and in saving. The effect of increased production will be to place a larger volume of goods against the greatly enlarged volume of our purchasing media and thus to reduce prices. The effect of increased saving will be a reduction in the volume of purchasing media in use and, by consequence, a reduction of prices also.

> "What is needed is the restoration of a proper balance between the volume of credit and the volume of goods" said Governor Harding, speaking before the Annual Convention of the American Bankers Association at St. Louis, September 30th. "Because of the war financing of the Government it is not practicable to reduce the volume of credit except gradually, and the best and probably the only remedy for the present unrest is to increase the volume of goods, and the facilities for their distribution. Shorter hours and higher wages do not tend to increase production, but rather the reverse, and strikes and walkouts are doubly harmful in that they stop production without materially reducing consumption."

The cost of living problem on its financial side is misconceived unless it is conceived as the problem of restoring the value of the dollar. To accept the depreciation worked in the dollar by war conditions and to standardize the dollar of the future on this basis would be to ratify the inflation wrought by the war and the injustices it produced. No artificial solution for an economic situation of this kind is likely to commend itself to the better judgment and the sense of equity of the country, even could some artificial method of dealing with the question of monetary depreciation be devised which would not bring in its train a crop of new difficulties and and problems.

COST OF LIVING INDEX AND WAGE ADJUSTMENT. So far as the main incidence of the high cost of living is to be found in the ranks of labor, its correction presents an industrial problem rather than a monetary problem - a problem to be met not by a change in the monetary standard but by a change in the machinery of industrial remuneration. The successful handling of the cost of living situation, so far as concerns labor, is in first instance a matter of determining the extent to which the actual cost of living to different grades of labor in different parts of the country has been increased by rising prices, and secondly, of devising some effective method of adjusting money wages to changes in the money cost of living. The former is a technical statistical problem and is having the attention of the Bureau of Labor Statistics, which is accumulating data on the basis of which can be constructed a cost of living index number that will show variations in total expense of families dependent upon wages because of price changes. The latter is the practical problem of improving the status of labor by the establishment of new working principles governing the relations of employers and employed.

Speaking on this subject at the Annual Meeting of the American Association of the Baking Industry in Chicago September 24th, Mr. Miller of the Federal Reserve Board said:

> "There has been no general policy, either public or private, governing the action of industry in the matter of wage adjustment to changed living conditions. All sorts of influences have been at work in determining the outcome; the maintenance of the standard of living has not been the controlling consideration. The state of the labor market in different industries has, at times, resulted in increase of wages more than the increase in the cost of living, and at other times wages have lagged. **** * It must be said that there has been on the whole a lack of close correspondence of changes of wages with changes in the cost of living.
>
> "The facts and indications, fragmentary as they are, reveal a situation which from every reasonable point of view must be regarded as unsatisfactory. Much as was achieved in certain industries during the war through the action of public or private agency, the maintenance of the standard of living does not occupy the decisive place it should in the determination of wages. Chance and circumstance play too large a role, and principle too little. Wages must be regarded as the first charge on industry, and the maintenance of at least those living standards which were customary before the war must be made secure. The first duty of the nation is to preserve the health and strength of its workers. The standard of living is, therefore a matter of public and national concern as well as of individual concern. The Nation can not afford, industry can not afford, to run the risk of impairing its working forces through lack of some effective method of adjusting wages to the cost of living. This is, in an immediate

sense, the most pressing aspect of the cost of living problem with which we are confronted. Close study should, therefore, be given by different industries in every section of the country to methods of handling the problem in an effective and equitable way. Beginnings have been made in some business and industrial enterprises, but the problem should be taken hold of on a systematic and national scale in order that the needed results shall be achieved. Some mechanism by which wages may promptly be adjusted to changes in the cost of living must be accepted as an essential part of the American wage system. *** Such action is particularly urgent in view of the extremely uncertain and disrupted course which prices and the cost of living seem likely to follow for a good many years to come, or until the affairs of the world are once more in a state of settled equilibrium. It will not do to leave the adjustment of wages to changes in the cost of living, either to the slow and uncertain action of the forces of competition, or to the costly and disruptive action of industrial warfare. So far as the strike is a method of securing an adjustment of wages to rising prices, it should become an obsolete feature of the American industrial system."

THE EXPORT SITUATION. Little change is reflected in the recent volume of our foreign trade shown by the latest statement of the Department of Commerce covering the month of August. Exports for August were $646,259,000 as compared with $570,083,000 for July, the first month in the fiscal year 1920, and $602,090,000, the average for the fiscal year 1919. Largely increased exports, as compared with July, are shown for unprepared foodstuffs, partial manufactures, and manufactures ready for consumption, while smaller exports for the month are shown for prepared foodstuffs, mainly meat and dairy products. Raw cotton exports show a further decline for the month, while exports of mineral oil, cotton goods and automobiles show considerable gains. August imports were $307,331,000 as compared with $344,000,000 for the month of July and $257,990,000, the average for the fiscal year 1919. Excess exports for August were $338,928,000 compared with $226,083,000 for July and $344,100,000, the average for the fiscal year 1919.

The first two months of the current fiscal year are, therefore, characterized by a very marked diminution in the outward movement of goods. It is clear that the large American credits at the disposal of foreign governments and their disposition to draw heavily on American supplies for the purpose of "stabilizing" the first steps in the process of after-war readjustment, were mainly responsible for the heavy outflow of goods during the last fiscal year. It has not yet been determined, nor is it clear, how much must be done nor how little will suffice in further financial and economic support of Europe in the further process of her readjustment. Nor is it clear what should be done in support of certain of our industries which attained conspicuous importance as export industries under the pressure of the artificial situation produced by the war.

It seems highly probable, however, that new outlets for the excess products of these industries will have to be found if anything approaching their volume of production during the war is to be sustained.

In the meantime it should be noted that some improvement in our cost of living situation is likely to result from the diminished outflow of goods to countries not in a position to make payment by return shipments of goods. Elsewhere in the Bulletin are given the results of an attempt to estimate the growth of the physical volume of our export trade in recent years after eliminating the price factor - in other words, an attempt to estimate the growth in physical volume. While the data available for such an estimate are not as comprehensive as might be desired and the results are, therefore, not to be taken as conclusive, they are believed, nevertheless, to be of very great value as giving a more faithful picture of changes in our export situation than can be derived from totals stated in terms of money value. Taking the pre-war five-year period 1910-14 as a base for purposes of comparison and noting the increase for each of the succeeding five years as compared with the pre-war average, the following index numbers are reached:

1910 - 1914	-	100
1915	-	125
1916-17	-	120
1918	-	109
1919	-	135

It is noteworthy that the fiscal year 1919 shows the greatest increase over the pre-war average - an increase of 35 per cent, - a rate of increase more than fourfold that shown for the preceding fiscal year 1918. Such a gain in the rate of increase suggests that heavy exports (effectuated for the most part by credit advances) to Europe have been a very considerable factory in our cost of living situation. It is also noteworthy that an estimated 35 per cent of the physical volume of exports in the last fiscal year consisted of foodstuffs.

FEDERAL RESERVE BOARD

WASHINGTON

October 6,1919.

X-1693

Subject: Campaign for New Par Points.

Dear Sir:

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of September 26th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

In addition there is also enclosed a special report showing non-member banks not on par list distributed by States according to Federal Reserve Districts; also, a statement showing total number of banks on par list distributed by States according to Federal Reserve Districts.

Very truly yours,

Assistant Secretary.

3-Incl.

To Chairmen of all Federal Reserve Banks.

CAMPAIGN FOR NEW PAR POINTS

REPORT OF FEDERAL RESERVE BANKS, SEPTEMBER 30, 1919. X-1693 a

Federal Reserve Bank of	National Banks in District	State Bank Members	Total Member Banks	Nonmember Banks on par List	Ratio of nonmember Banks on Par List to total nonmember banks in District	Number of Banks added to Par List during Sept. 1919.	No. of Banks added to Par List since Jan. 1, 1919.	No. of nonmember banks not on Par List	Total No. nonmember banks in District.
Boston	394	36	430	242	100%	--	--	--	242
New York	629	116	745	318	100	--	--	--	318
Philadelphia	635	38	673	409	100	--	93	--	409
Cleveland	749	91	840	1,011	93.1	62	344	75	1,086
Richmond	531	42	573	425	29.4	30	151	1,020	1,445
Atlanta	367	63	430	346	21.7	6	96	1,245	1,591
Chicago	1,047	317	1,364	3,201	76.2	34	833	996	4,197
St. Louis	467	60	527	1,827	68.9	125	819	826	2,653
Minneapolis	824	82	906	1,496	52.1	15	327	1,373	2,869
Kansas City	981	36	1,017	2,829	86.3	329	648	449	3,278
Dallas	631	117	748	638	52.0	318	469	590	1,228
San Francisco	571	109	680	918	86.1	3	-9*	148	1,066
Total	7,826	1,107	8,933	13,660	67.0	952	3,771	6,722	20,382

*Decrease

FEDERAL RESERVE BOARD
WASHINGTON

OCTOBER 6, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

October 10, 1919.
X-1697.

Subject: Telegraphic Charges.

Dear Sir:

With further reference to the Board's letter of July 9, 1919, X-1611, regarding uniform policy of payment of charges on telegrams addressed to Federal Reserve Agents by member banks and managers of clearing houses reporting figures which are used by the Board in its weekly published statements, the commercial telegraph companies have requested that the notation on telegrams, which was suggested in the Board's letter mentioned above reading as follows;

"Official business. Government rates.
Charge Federal Reserve Agent, Federal
Reserve Bank, Boston,Mass."

be changed to read,

"Collect.
Official business.
Government rates."

The commercial telegraph companies advise that there has been considerable confusion, owing to the use of the notation originally suggested, and state that it will greatly facilitate their work if the revised notation is used.

Kindly advise reporting member banks and managers of clearing houses in your district, and acknowledge receipt of this letter.

Very truly yours,

Assistant Secretary.

Letter to all Chairmen.

FEDERAL RESERVE BOARD

WASHINGTON

October 11,1919.

X-1698

Subject: Act amending Sections 5200 and 5202 U.S.R.S.

Dear Sir:-

I enclose herewith, for the information of the officers of your bank, a copy of House Bill 7478 amending Sections 5200 and 5202 of the Revised Statutes of the United States.

This bill, which was passed by the House on October 7th, is in the exact form in which it passed the Senate on October 2nd, and it will become a law after it receives the signature of the President, or without his signature after the lapse of ten days from the time the engrossed copy is sent to the White House.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

October 11,1919.

X-1699

Subject: Memorandum re "Calculations Showing the Effect of Changes in Reserve Requirements."

Dear Sir:

There is enclosed herewith, for your confidential use in considering topic (b) "Amendments", (1) "Reserves and net deposits" under "Federal Reserve Bank Policies" in the list of topics furnished you by Federal Reserve Agent Jay for discussion at the Conference of Federal Reserve Agents to be held in Washington October 22, a copy of a memorandum prepared by the Board's Statistician on the subject, "Calculations Showing the Effect of Changes in Reserve Requirements".

Very truly yours,

(Enclosure)

Assistant Secretary.

To Federal Reserve Agents at all Federal Reserve Banks.

August 28,1919.

X-1660

Subject: Calculations Showing the Effect of Changes in Reserve Requirements.

CONFIDENTIAL

MEMORANDUM FOR GOVERNOR HARDING.

In accordance with your request I hand you herewith statements containing the following calculations based upon March 4,1919, returns.

1. Amounts of required reserves for national banks located in Federal Reserve Bank and branch cities on the one hand and national banks located in other places on the other, as figured by the Comptroller in accordance with present law; i.e., 13 per cent against net demand deposits in central Reserve cities; 10 per cent in other Reserve cities; and 7 per cent outside of Reserve cities. Modification of these figures has been made on the supposition that cash in vault including lawful money and other cash is to be deducted from demand deposits in figuring required reserves.

2. Changes in the amounts of required reserves for national banks located in Federal Reserve Bank and branch cities
   (a) assuming uniform reserve requirements of 15 per cent against bank deposits; 10 per cent against demand deposits and the continuation of 3 per cent against time deposits,

   and like changes for national banks outside Federal Reserve Bank and branch cities
   (b) assuming uniform reserve requirements of 15 per cent against bank deposits, 7 per cent against demand deposits and the continuance of 3 per cent against time deposits.

3. Like changes in required reserves for national banks located in Federal Reserve Bank and branch cities on the one hand and in other places on the other, assuming uniform reserve requirements of 14 per cent against bank deposits and 3 per cent against time deposits; 12 per cent against demand deposits held by banks in Federal Reserve Bank and branch cities and 7 per cent against demand deposits held by banks in other places.

If a change in reserve requirements as outlined in paragraph 2 was enacted, required reserve for the banks in Federal Reserve Bank and branch cities would decline from 643 to 622 millions, and if in addition vault cash were treated as a deduction from demand deposits, required reserves would decline to 604 millions, thus making a total decline in required reserves of 39 millions. This decline, as shown in the detailed statement is the combined result of a larger calculated decline for the banks in the central Reserve cities and increases for the banks in most of the other Federal Reserve Bank and branch cities.

If the change in required reserves as outlined in paragraph 3 was adopted, required reserves for the banks in Federal Reserve Bank and branch cities would rise from 643 to 687 millions. If vault cash was treated as a deduction from demand deposits, an increase to 665 millions would result, or an increase by about 22 millions as against a decrease of 39 millions under the first combination. But here again, as under the first supposition, the change in reserve requirements would benefit the banks in the central reserve cities by reducing their required reserves from 403 to 380 millions, or by 22 millions, as against a reduction of 53 millions under the first supposition. On the latter assumption, however, it is found that banks in all Federal Reserve Bank and branch cities other than central Reserve cities will be required to keep larger reserves than under the present law.

Respectfully submitted,

M. JACOBSON.
Statistician.

Office Memorandum.
Not to be transmitted to Federal Reserve Banks.

STATEMENT SHOWING AMOUNTS OF RESERVES WHICH NATIONAL BANKS ARE REQUIRED TO CARRY WITH FEDERAL RESERVE BANKS UNDER PRESENT LAW AND RESERVES WHICH THEY WOULD BE REQUIRED TO CARRY UNDER CERTAIN PROPOSED AMENDMENTS.
(Based on figures shown in Comptroller's abstract for March 4,1919.)
(In thousands of dollars)

X-1660 a

	1. Present law Amount	2. Proposed amendment Amount	%	3. Proposed amendment Amount	%	EXCESS Column 2 over column 1	EXCESS Column 3 over column 1	EXCESS Column 3 over column 2
BANKS IN F.R. AND BRANCH CITIES.								
Reserves required:								
On bank deposits	171,506	213,600	15	199,360	14	42,094	27,854	(c)14,240
On demand deposits	460,002	396,821	10	476,185	12	(a)63,181	16,183	79,364
On time deposits	11,591	11,591	3	11,591	3			
Total	643,099	622,012		687,136		(a)21,087	44,037	65,124
After deducting cash in vault from demand deposits		604,226		665,793				61,567
BANKS OUTSIDE F.R. BANK AND BRANCH CITIES								
Reserves required:								
On bank deposits	21,935	37,149	15	34,672	14	15,214	12,737	(c) 2,477
On demand deposits	340,658	321,112	7	321,112	7	(a)19,546	(b)19,546	-
On time deposits	67,973	67,973	3	67,973	3	-	-	-
Total	430,566	426,234		423,757		(a) 4,332	(b) 6,809	(c) 2,477
After deducting cash in vault from demand deposits		408,226		405,749				(c) 2,477
ALL NATIONAL BANKS.								
Reserves required:								
On net deposit liabilities as calculated at present	1,073,665	1,048,246		1,110,893		(a)25,419	37,228	62,647
After deducting cash in vault from demand deposits		1,012,452		1,071,542				59,090
Decrease in required reserves resulting from treatment of vault cash as a deduction from demand deposit liabilities		35,794		39,351				

(a) Excess of column (1) over column (2)
(b) Excess of column (1) over column (3)
(c) Excess of column (2) over column (3)

FEDERAL RESERVE BOARD

WASHINGTON

October 16, 1919.
X-1701

CONFIDENTIAL

Subject: Study of Present Credit Situation with view to devising steps to curtail expansion.

Dear Sir:

In the opinion of the Board the expansion of credits is fast reaching the danger point, and at its conference with the Governors of the Federal Reserve Banks this question will be given serious consideration.

It is evident that some effective steps must be devised to regulate the granting of credits, and the Board requests that each Governor, before coming to the conference, look over the discount lines of his bank and bring with him a memorandum showing the names of all banks which habitually rediscount in excessive amounts, as well as the average line carried by each of such institutions since October 1st.

The Board has knowledge of cases in several of the Federal Reserve Districts where member banks appear to be carrying Liberty Bonds and Treasury certificates far in excess of their combined capital, surplus and deposits and are rediscounting the entire amount with their Federal Reserve Bank, the intention being, apparently, to make the profit out of the differential in rate. As an example your attention is invited to the following figures, which relate to a State member bank in a certain Federal Reserve District:

Loans and Discounts....................	$ 173,579.00
Liberty Bonds..........................	1,658,825.00
United States Victory Notes............	200,000.00
Stock of Federal reserve bank..........	7,500.00
Other bonds, stocks and securities......	117,875.00
Lawful reserve with Federal reserve bank..	70,511.00

- - - o - - -

Capital stock..............................	$ 200,000.00
Surplus....................................	50,000.00
Undivided Profits....	1,854.00
Total gross deposits.......................	110,248.86
Bills Payable with Federal reserve bank....	1,950,000.00

This bank has used all its Government securities as collateral to secure its four per cent. notes with the Federal Reserve Bank; it carries no vault cash and does not do an active business; its minimum annual net profit derived from the rediscounting of paper secured by Government obligations is:

1/4% on $1,658,825................	..$4,147.00
3/4% on $ 200,000..................	1,500.00
	5,647.00

This is a net profit which does not call for the investment of any of the bank's capital and surplus.

Very truly yours,

Governor.

Letter to each governor.

FEDERAL RESERVE BOARD

WASHINGTON

October 17,1919.
X-1702

Subject: Manual of the Federal Reserve System
Leased Wire Service.

Dear Sir:

There are sent you under separate cover copies of the Federal Reserve Board, "Manual Of The Federal Reserve System Leased Wire Service Outlining Briefly The Plan Of Operation, And Containing Instructions For The Guidance Of Operators, Together With General Information For Those Concerned With The Handling of Telegrams" prepared by the Federal Reserve Bank of Chicago in accordance with recommendations of the Governors of the Federal Reserve Banks to the Federal Reserve Board (Board's letter X-1607) covering the operation of the Federal Reserve Leased Wire System.

The Manual has been approved by the Federal Reserve Board and becomes effective immediately.

Will you kindly furnish copies to officers and employees of your Bank concerned with the handling of telegrams over the Federal Reserve Leased Wire System?

Very truly yours,

Assistant Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE AGENT'S SPECIAL FUNCTIONS.

(a) NOTE ISSUE
  (1) Discussion of expansion and contraction.
  (2) Supply of coin and currency.
    Does Federal Reserve Bank supply its district completely or do member banks get supply largely from their correspondents?
   Each Federal Reserve Agent to report.
  (3) Redemptions.
    Can the volume of shipments by member banks and by Federal Reserve Banks be reduced?

(b) INFORMATION.
  (1) Monthly business review.
  (2) Intermediate information.
  (3) Annual Report.
  (4) Standardized statistics.

(Discussion by F.R. Agents
(Criticism and suggestions
(by F.R. Board.

(c) AUDITING.
  (1) Recommendations of Auditors conference.

(d) EXAMINATIONS OF MEMBER BANKS.

(e) CLAYTON ACT
  (1) Should existing permits be revised.

(f) TRUST POWERS.

(g) RELATIONS WITH MEMBER BANKS.
  (1) Services, present and prospective, and their cost.
  (2) Are many members considering withdrawing?
  (3) Proper use of System by members; can a programme be formulated?

(h) RELATIONS WITH NON-MEMBER BANKS.
  (1) What can be done to increase membership?
  (2) Recommendation of definite programme to Federal Reserve Board.
  (3) Report from Federal Reserve Board's Counsel as to condition of State laws. What legislatures meet in 1920?
  (4) Value of non-member clearing accounts.

(i) RELATIONS WITH PUBLIC.
  (1) Publicity regarding Federal Reserve matters.
  (2) Campaign of education for business men. Would it create sentiment among bank directors to have their banks join and remain in System?

X-1703

FEDERAL RESERVE BANK POLICIES.

(a) PAR POINT CAMPAIGN.
- (1) Report from each District.
- (2) Symbol plan.
- (3) Fixing maximum charges.
- (4) Clearing House charges.

(b) AMENDMENTS.
- (1) Reserves and net deposits.

(c) RATES.
- (1) Classification.
- (2) Changes; their purpose and probable effect.

(d) RELATION TO MONEY MARKET.
- (1) Contracting discounts through rates or pressure of individual banks.
- (2) Acceptances; development and market.
- (3) Gold movements.

(e) RELATIONS TO SUB-TREASURY.
- (1) Legislation.
- (2) Operation.

(f) BRANCHES.

(g) FOREIGN CREDITS.
- (1) Presentation of situation as viewed by Federal Reserve Board.
- (2) Can Federal Reserve Banks do anything to improve foreign exchange situation?

X-1703

Supplementary List of Topics suggested by Federal Reserve Agents to the Federal Reserve Board for discussion at the Federal Reserve Agents' Conference in Washington, October 22, 1919.

	Suggested by Federal Reserve Agent at:
FEDERAL RESERVE AGENT'S SPECIAL FUNCTIONS	
(a) NOTE ISSUE.	
(4) Advisability of amending Federal Reserve Act to make Federal Reserve notes legal tender.	St.Louis
(d) EXAMINATIONS OF MEMBER BANKS.	
(1) Desirability of Federal Reserve Banks' receiving confidential parts of reports of National Bank Examiners.	San Francisco
(g) RELATIONS WITH MEMBER BANKS.	
(4) Advantages of instituting a system of visiting member banks for the purpose of helping and instructing them.	Chicago
(j) FEDERAL RESERVE AGENT'S DEPARTMENT.	
(1) Necessity of Assistant Federal Reserve Agents at branches, and duties of such agents.	St. Louis.
(2) Desirability of organizing a Federal Reserve Agent's Department with the Chief Examiner as the Federal Reserve Agent's chief assistant.	San Francisco
FEDERAL RESERVE BANK POLICIES.	
(a) PAR POINT CAMPAIGN.	
(5) Policy as to compulsory collection of checks at par.	San Francisco.
(h) COMPENSATION OF EMPLOYEES.	
(1) Wages and bonuses.	
(i) DESIRABILITY OF AN INTERCHANGE OF JUNIOR OFFICERS. AND DEPARTMENT HEADS BETWEEN FEDERAL RESERVE BANKS.	San Francisco.
(j) GOLD POLICY.	
(1) Desirability of limiting payments of gold coins to those of $20 denominations.	San Francisco.

FEDERAL RESERVE BOARD

WASHINGTON

October 24, 1919.

X-1705

Subject: Amendment to Section 5200 and Rediscount Powers of Federal Reserve Banks.

Dear Sir:

There is enclosed herewith an analysis of the amendment to Section 5200 of the Revised Statutes of the United States, which became a law on October 22, 1919, together with a memorandum discussing the distinction which must be drawn in making rediscounts for national bank and state bank members.

Very truly yours,

Governor.

X-1705 (a)

LOANING POWERS OF NATIONAL BANKS
UNDER THE AMENDMENT TO SECTION 5200 U.S.R.S.
APPROVED OCTOBER 22, 1919.

The amendment to Section 5200 of the Revised Statutes which became a law on October 22, 1919, has made certain material changes in the loaning powers of national banks. For the convenience of national banks and others interested in the effect of those changes, there is submitted herewith an analysis of the provisions of Section 5200 now in force.

The amounts which a National Bank may properly lend to any one person, company, corporation or firm (including in the liability of a company or firm, the liabilities of the several members thereof) under the various clauses of Section 5200, as amended by the Act approved October 22, 1919, are stated in terms of the percentage of the paid-up and unimpaired capital stock and surplus of the lending bank.

Character of Loans.	Amounts Loanable.
(A) Accommodation or straight loans, whether or not single name,	Maximum limit, 10% of bank's paid-up and unimpaired capital and surplus.
(B) "Bills of exchange drawn in good faith against actually existing values". The law expressly provides that this phrase shall also include: (a) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped. (b) Demand obligations, when secured by documents covering commodities in actual process of shipment. (c) Bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act.	No limit imposed by law.

	Character of Loans.	Amounts Loanable.
(C)	Commercial or business paper (of other makers) actually owned by the person, company, corporation or firm negotiating the same.	No limit imposed by law.
(D)	Notes secured by shipping documents, warehouse receipts or other such documents, conveying or securing title covering readily marketable non-perishable staples, including live stock. No bank may make any loan under (D), however, (a) Unless the actual market value of the property securing the obligation is not at any time less than 115% of the face amount of the note, and (b) Unless the property is fully covered by insurance, and in no event shall the privilege afforded by (D) be exercised for any one customer for more than six months in any consecutive twelve months.	15% of bank's capital and surplus, <u>in addition to</u> the amount allowed under (A); or if the full amount allowed under (A) is not loaned then the amount which may be loaned in the manner described under (D) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10% but the aggregate of (A) and (D) may equal, but not exceed, 25%.
(E)	Notes secured by not less than a <u>like face amount</u> of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.	10% of bank's capital and surplus, <u>in addition to</u> the amount allowed under (A), or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (E) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10%, but the aggregate of (A) and (E) may equal, but not exceed, 20%.
(F)	Notes secured by U. S. Government obligations of the kinds described under (E) the face amount of which is at least equal to 105% of the amount of the customer's notes.	No limit, but this privilege, under regulations of the Comptroller of the Currency, expires December 31, 1920.

SOME EXAMPLES OF WHAT A NATIONAL BANK MAY LEND AT ANY ONE TIME TO ANY ONE CUSTOMER UNDER THE AMENDMENT TO SECTION 5200 APPROVED OCTOBER 22, 1919, EXPRESSED IN TERMS OF PERCENTAGE OF THE BANK'S CAPITAL AND SURPLUS.

		Illustration 1	Illustration 2	Illustration 3
(A)	Accommodation or straight loans,	10%	5%	5%
(D)	Notes secured by warehouse receipts, etc., ...	15%	20%	15%
(E)	Notes secured by a like face amount of Government obligations, ...	10%	10%	15%
	Total	35%	35%	35%

(B)	Bills of exchange drawn against actually existing values, ...	No limit imposed by law.
(C)	Commercial or business paper, ..	" " " " "
(F)	Notes secured by at least 105% of U. S. Government obligations,	" " " " "

October 24, 1919.

WHAT A FEDERAL RESERVE BANK MAY DISCOUNT FOR ITS MEMBER BANKS.

The limitations imposed upon the amounts of rediscounts which a Federal reserve bank may make for a member bank, whether State or national, are determined by the provisions of the Federal Reserve Act and are not in any way affected by the amendment to Section 5200.

Under the provisions of Section 13 of the Federal Reserve Act any Federal reserve bank may rediscount for any member bank, whether State or national, the obligations of any one borrower to the extent of ten per cent of the member bank's capital and surplus but it is expressly provided that "bills of exchange drawn against actually existing values" shall not be included in determining that ten per cent limit.

In the opinion of the Federal Reserve Board this phrase "bills of exchange drawn against actually existing values" includes "drafts or bills of exchange secured by shipping documents conveying or securing title to goods shipped" and "bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act" even though Section 13 (unlike the amendment to Section 5200) does not expressly state that those two classes of paper are bills of exchange drawn against actually existing values. In the opinion of the Board, however, accepted demand bills on which the drawer is released from liability are not "bills of exchange" within the meaning of Section 13 and must, therefore, be included in determining the limits on the amount of paper of any one borrower which a Federal reserve bank may rediscount for any member bank.

Under the terms of Section 11 (m), as amended by the Act of March 3, 1919, any Federal reserve bank may, until December 31, 1920, rediscount for any member bank, whether State or national, the obligations of any one borrower to the extent of twenty per cent of the member bank's capital and surplus, provided, however, that the excess over and above ten per cent must be secured by bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.

Special Provisions Relating to Rediscounts for Member State Banks.

The above discussion relates to the general powers of a Federal reserve bank to make rediscounts for any member bank, whether State or national. It must be observed, however, that under the terms of Section 9 of the Federal Reserve Act no Federal reserve bank can rediscount for a member State bank any of the paper of any one borrower who is liable to such member State bank in excess of ten per cent of the capital and surplus of that State bank but it is provided that the discount of bills of exchange drawn against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same shall not be included in determining the amount to which a borrower is liable to such member State bank.

The provisions of this Section 9 are in no way affected by the amendment to Section 5200 of the Revised Statutes and the same test as to the eligibility of any part of the line of paper of any one borrower which is held by a member State bank is applicable now as before that amendment to Section 5200.

Under the provisions of Section 11 (m) as amended by the Act of March 3, 1919, the Board has ruled that a Federal reserve bank may, until December 31, 1920, rediscount for a member State bank paper secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, without regard to the amount the borrowing bank may already have loaned to its customer under his regular line of credit, provided, however, that the aggregate of all rediscounts of the paper of any one borrower must in no case exceed twenty per cent of the capital and surplus of the member State bank.

In other words, if the regular line of credit of the borrower from a member State bank is <u>not more</u> than the ten per cent limit fixed by Section 9 of the Federal Reserve Act, Federal reserve banks may rediscount for State member banks to the same extent that they may for member national banks. If, however, the regular line of credit of the borrower from the member State bank is <u>more</u> than that ten per cent limit, then the Federal reserve bank cannot rediscount any of that regular line of credit but may rediscount that paper which is secured by Government obligations of the kinds specified up to the limits described above. (See ruling of the Federal Reserve Board printed on pages 361 and 362 of the April, 1919, Federal Reserve Bulletin.)

October 24, 1919.

FEDERAL RESERVE BOARD.

Release morning papers,
October 25, 1919.

Summary of Address by W.P.G. Harding before International Trade Conference, Atlantic City, N.J. October 24, 1919.

W.P.G. Harding, Governor of the Federal Reserve Board, called attention to the fact that the Federal reserve system could do but little in the present circumstances towards financing our trade with European countries. The Federal Reserve Act provides that the maturities of all paper discounted with Federal Reserve Banks be not longer than ninety days, except in the case of agricultural paper, or paper based on live stock, which may be taken when it has not longer than six months to run.

He said "It is the view of the Federal Reserve Board that the need of Europe is for long credits, and that the situation, therefore, is one which appeals to the investment market". Many of the problems which now confront European countries are present in an acute form in this country, and there is a great need for larger production, reduced consumption, more economy and thrift. The liquid wealth of the world as represented by goods and commodities has been reduced to an alarming extent by reason of the war, and the volume of credit throughout the world is out of all proportion to the volume of goods. In order to bring about more normal conditions, it will be necessary to restore the proper balance between credits and goods. This process will necessarily be a slow one, but it is essential that a beginning should be made and the restoration can be made only by rigid application of the principle of work and save."

"The United States Government, beginning shortly after its entrance into the war, authorized advances to the governments of the nations associated with it in the war aggregating ten billion dollars, nearly all of which has now been allotted and used. There is no reason whatever to believe that our Government will, nor, indeed, could it without the most harmful inflation, continue to make advances out of its treasury to foreign countries, and I am convinced, therefore, that the problem of financing Europe, as far as America is concerned, is one for private initiative and individual enterprise."

"It is to the mutual interest of Europe and America that any credits which may be extended shall be employed in the purchase of necessary articles, raw materials, machinery, and such manufactured goods as are necessary to relieve distress and enable the countries of Europe to resume productive operations. Credits for the purchase of luxuries should be discouraged, but it is manifest, of course, that action in this respect should be initiated in Europe rather than in this country."

"It should be borne in mind that while the United States now occupies relatively a stronger position in the field of world finance than it has even held, our bankers have had comparatively little experience in extending long time credits in foreign countries. Their transactions have hitherto been in the direction of dealings in short bills and in placing American securities in foreign countries, and it is important that the judgment and cooperation of European bankers be enlisted when we undertake the new role of purchasing long time securities, especially of private enterprises, with which we cannot be expected to be familiar."

"The Federal Reserve Board appreciates very deeply the importance from every point of view of promoting our foreign trade, and believes that the banks of this country generally understand that longer credits than can safely be granted by banks are necessary if we desire to export our surplus of essential commodities." Under the Federal Reserve Act national banks having a capital and surplus of not less than one million dollars are authorized either to establish branches in foreign countries or to take stock to the extent of ten per cent. of their capital and surplus in banks or corporations principally engaged in foreign banking, and under a recent amendment to the Act all national banks, regardless of their size, are authorized to subscribe not more than five per cent of their capital and surplus to the stock of corporations principally engaged in such forms of financial operations as are necessary or conducive to the export of goods. The Edge Bill, which has recently passed the Senate and which has been reported favorably by the House Committee on Banking and Currency, provides for the Federal incorporation of foreign banks and of corporations to finance foreign business. The latter are authorized under the terms of the bill to issue their own obligations or debtentures against securities acquired abroad which they may offer to the investing public. These corporations will be under the general supervision of the Federal Reserve Board, and as their funds will be drawn directly from the investment market, their operations will not impair the liquidity of the assets of the Federal Reserve Banks."

FEDERAL RESERVE BOARD

WASHINGTON

October 27,1919.

X-1707

Subject: Eligibility for Rediscount of Cotton Factors' Paper.

Dear Sir:

There is quoted below, for your information, the text of a letter recently addressed to one of the Federal Reserve Banks, in which the Board defines its view as to the eligibility of cotton factors' paper:

"The Federal Reserve Board has carefully considered the question whether cotton factors' paper may properly be considered eligible for rediscount as commercial paper within the meaning of Section 13 of the Federal Reserve Act. The Board in its consideration of this subject has examined the brief submitted by the directors of the Memphis Branch of the Federal Reserve Bank of St. Louis, together with the letters and statements of various other persons interested in the determination of the question.

"In view of the fact that it is apparent from all the evidence on hand that the circumstances and conditions under which so-called cotton factors' paper is issued vary so much in different cases, it is impossible to give any categorical answer to the question presented, or to make any general ruling that cotton factors' paper, as such, is eligible for rediscount.

"The Board is firmly of the opinion on the one hand that paper, the proceeds of which are used to lend to some third party, is finance paper rather than commercial paper and is, in consequence, ineligible for rediscount even though that third party may use the proceeds for a commercial purpose. On the other hand, the Board believes that any paper, the proceeds of which are used to purchase goods to sell to some third party, is eligible for rediscount as commercial paper within the meaning of Section 13. Whether or not a given transaction falls within one class or the other, is solely a question of fact for the determination of the Directors of the Federal Reserve Bank to which the paper is presented for rediscount. In other words, the mere fact that a borrower on a given note is a cotton factor, does not of itself render that note ineligible, since its eligibility is a matter to be determined by the use to which the proceeds of that particular note are put. If a cotton factor borrows on his own note to increase his capital for the purpose of lending to his customers, the note would come within the first class and would be ineligible, but if it can be determined that the proceeds of the note instead of being loaned to a customer by the factor are used by the factor to purchase goods which are shipped to the customer and which are charged by the factor against the customer's account, then the note attains a commercial status because of the commercial purpose to which its proceeds are applied by the factor. In order to ascertain the necessary facts it may be proper for a Federal Reserve Bank to require statements or affidavits from the maker of the note as to the exact nature of the transaction out of which it arises. With these principles as a guide, the Federal Reserve Bank must determine the eligibility of any particular paper in the light of the circumstances in which it was issued, and its proceeds disposed of."

Very truly yours,

Governor.

Letter to Chairman of each bank.

FEDERAL RESERVE BOARD X-1709

STATEMENT FOR THE PRESS.

For Release in Morning Papers,
Sunday, November 2, 1919.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of October, as contained in the forthcoming issue of the Federal Reserve Bulletin:

Great general prosperity throughout the country, with strong demand for commodities verging at times upon recklessness in buying, is the general business situation as reported by Federal Reserve agents in the several Federal Reserve districts for the month of October. Crop returns have been good in most sections, and even where decline in output has brought the total yield below the forecasts, prices are reported as the highest on record, the money returns being thus largely augmented in spite of the decreased volume. Staple commodities have moved satisfactorily to market during the month, although the volume of grain thus shipped is smaller than last year, while shortage in some commodities, such as sugar, has brought about unusual care in the distribution of existing supplies. Production of coal has been on the increase, while the demand has been unusually strong, owing to the fears of consumers concerning the prospect of a strike to date from November 1. There has been no decline in general manufacturing, while prices continue firm. The upward movement of trade usually noted in the autumn has been in evidence during the month. Speculative activity has been extensive throughout the country and is reaching dangerous levels. This and the prevailing high prices have led in some quarters to a further development of the spirit of conservatism noted in the last issue of the Federal Reserve Bulletin, and in some important lines of business leading factors forecast the possibility of a shrinkage either of prices or of volume of business, or both. A troublesome factor in the industrial situation is seen in the existence of a widespread condition of industrial and social unrest, and while disturbances growing out of strikes have not increased during the month, prospects for a growth in this direction have been such as to cause some anxiety.

General business conditions in district No. 1 "continue to reflect unprecedented prosperity as defined in terms of high wages and purchasing power, high prices, complete full time employment in all lines of industry, orders booked by manufacturers in some cases far into 1920, projected plans for expansion of plants and equipment, and the absence of serious or widespread dislocation of working relationship between employer and employee in any of the great basic industries; although industrial unrest lies very close to the surface." In district No. 2 the financial situation is characterized by heavy demand for funds and increase in speculative activity, wholesale and retail trade is in large volume, and labor conditions are distinctly unsettled, finding particular expression in several great strikes. In district No. 3 the demand for commodities of all kinds continues unabated, prices display great firmness, and labor troubles have not proved very disturbing. In district No. 4 "most concerns are operating at capacity," although in jobbing and wholesale trade there is some hesitation due to uncertainty of labor conditions. Retailers report strong demand. In district No. 5 crop returns, owing to the high prices realized, have been abundant, business is active, and "unfavorable factors have had little deterrent effect." In district No. 6 general business conditions "show no outstanding change," and "fall retail trade is opening up in large volume," although both corn and cotton crops are poor. In district No. 7 "business generally continues to reflect the greatly increased buying power growing out of the high wages and agricultural prosperity of the last three years." In district No. 8 "most lines of wholesale and retail business show increases over the corresponding period in 1918" and "optimism still prevails." In district No. 9 general business is active, the unusually good corn crop has been harvested, and the general outlook is good. "Reports from all trade and industrial centers" of district No. 10 "tell of continued activity in practically all lines of business in the face of such discouragements as would at other times be calculated to bring business to a standstill. Apparently there is a determination on the part of business to carry on, and there is a growing feeling of confidence that efforts now being made will bring an amicable adjustment of the differences between labor and capital." In district No. 11 there is "an auspicious opening of fall activities in all lines of trade," the disappointing outlook for cotton is offset by excellent yields and adequate prices realized on other farm products, the production of the oil fields is steadily increasing, and conditions on the whole are sound and prosperous. "Active trade in large volume, labor disturbances to a large extent around San Francisco Bay, with full employment elsewhere, and harvesting and movement of crops" have characterized the situation in district No. 12 .

During October the labor situation has occupied a position of primary importance. The reports of Federal Reserve agents show that there has been an increasing degree of general unrest throughout the country, which has culminated in a series of strikes, either actual or seriously threatened. The steel strike, which has already been long drawn out, although with production well maintained, is apparently approaching its end. This strike has not in recent weeks seriously hampered production, and the report from district No. 4 is to the effect that its influence "has been on a steadily declining scale. Certain districts and plants from the beginning were able to maintain their organizations almost intact, and in other cases the defection was not of proportions to cripple general operations." On the other hand, serious labor difficulties in New York, prominently among the longshoremen and in the printing trades, have resulted in extensive unemployment. More serious, perhaps, in its possibilities than any other labor disturbance was the threat of a general coal-mining strike to be called on November 1, negotiations for an adjustment having apparently been brought to nothing during the latter part of the month. Hopeful indication in the labor difficulty is the fact that in some districts a smaller number of actual strikes, or a smaller number of men out of work as a result of strikes, is reported. Unfortunate, on the other hand, has been the fact that the industrial conference at Washington, from which much was hoped, partially disintegrated, thus disappointing the expectations of many who had believed that it would be productive of great and immediate good. From several districts it is reported that current opinion had strongly inclined to the view that a satisfactory solution of the difficulties would result from the meeting, and disappointment in the outcome was accordingly keen. Summing up district labor situations, it would appear that in the New England region there is no general or serious dislocation of working relationships, although there is unusual caution among employers, while in Philadelphia but little disturbance has been experienced. Conditions in the South, at Atlanta and the adjacent region, are fairly satisfactory, while in Minneapolis and the Northwest there is full employment at good wages. Unrest exists in New York and Chicago, while the labor situation in the Southwest and on the Pacific coast is still unsettled, although some controversies heretofore in progress are now apparently approaching adjustment or are actually disposed of.

Commodity prices show a recession from the high levels reached during the month of August. The general index number of the Bureau of Labor Statistics stands at 221 for the month of September, as compared with the revised figure of 226 for the month of August, a decrease of 2.6 per cent. The downward tendency noted in some of the leading staples during the month of September has continued during the present month, in particular corn and livestock, though increases are noted in the prices of other staples, such as raw cotton and silk and various of the nonferrous metals. Scarcity of merchandise in certain leading lines, and insufficiency of anticipated output to meet demand is a factor tending to keep these prices at present high levels. While there is a widespread belief that the peak of prices has been reached, in certain quarters no great declines in the near future are anticipated, but rather comparative stability. Producers' goods remained unchanged in price, the index number being 212, while decrease in price occurred for both the groups of raw materials and consumers' goods, the respective index numbers decreasing 1.7 per cent, from 218 to 214, and 6.3 per cent, from 241 to 226. Among the subgroups included in the group of raw materials, the index numbers for farm and animal products show considerable decreases, from 251 to 240 and from 235 to 215 respectively, while the numbers for forest and mineral products show increases, from 193 to 218 and from 180 to 184 respectively.

In agriculture there has been a further increase in the estimated yield of corn, as against small decreases for spring wheat and oats. Both wheat and oats show low yield per acre, and the quality is poor. In district No. 9 " the unusually good corn crop has been harvested, but the rather unsatisfactory yield of wheat, which is both light and shrunken, has presented difficulties in connection with seed supplies for next spring." Reports indicate a slight reduction in the acreage of wheat sown this fall in district No. 10, while "corn has been helped by the September moisture and has matured nicely." In district No. 7 "the corn crop is in very fine condition in most localities," and wheat sowing has been aided by the recent rains, but the acreage in the excessively dry sections is smaller than last year.

It is reported that the deciduous fruit crop in district No. 12 promises to be the largest on record. In district No. 4 "tobacco is disappointing, estimates placing the 1919 crop at 25 per cent below that of 1918." Last year's unsold tobacco is now moving at 4 to 5 cents per pound over late quotations. The crop in district No. 5 is estimated at only 60 per cent of normal, but prices are the highest ever realized, and it is being sold rapidly. The condition of cotton showed a further decline to 51.1% on October 25, and the crop is moving slowly. Deterioration in quality is also noted in consequence of the unfavorable weather conditions which have prevailed, and extraordinary prices for the choicer qualities have resulted, as well as increases in the prices of other grades. Some tendency on the part of planters to hold the staple is reported.

Movement of grain to market is in smaller volume than last year. Receipts of wheat at 13 interior centers during September were 56,480,997 bushels, as compared with 67,699,895 bushels during September, 1918, while receipts of corn and oats show a greater falling off, being respectively 12,906,830 bushels and 20,945,038 bushels, as compared with 19,309,863 bushels and 28,957,695 bushels during September, 1918. Wheat and oats prices in the Kansas City district show a slight decline up to the middle of the month, while corn prices have declined considerably. It is reported that milling operations are heavy, and that mills are well sold up as far in advance as permitted. Recent trade reports, however, indicate a decreased demand. Flour production during September, as reported by the United States Grain Corporation, was 14,087,800 barrels, as compared with 12,042,000 barrels during August.

In view of the prevailing shortage of sugar, care is being used in the distribution of available supplies; all contracts on the books of refiners will be pooled, and a zoning system will be instituted, whereby the East will be supplied by Atlantic Coast refiners, the West by domestic beet sugar producers, and the South by Southern refiners.

Receipts of cattle at 15 primary markets during September were considerably less than for the same month last year, the respective figures being 1,871,042 head and 2,249,017 head, corresponding to index numbers of 186 and 223, while receipts during August, 1919, were 1,541,133 head, corresponding to an index number of 153. Receipts of hogs were also smaller, being 1,704,944 head during September, 1919, corresponding to an index number of 78, as compared with 1,775,842 head during September, 1918, corresponding to an index number of 81, and 1,595,759 head during August, 1919, corresponding to an index number of 73. Receipts of sheep, however, show a considerable increase, being 2,890,831 head during September, as compared with 2,220,229 head during August and 2,408,609 head during September, 1918, the respective index numbers being 212, 162, and 176. Drought conditions in the Northwest are reported to be largely responsible for the heavy movement of sheep. Decreases in the prices of the various classes of live stock are noted. It is noted in Chicago that "the average price of beef and mutton is considerably lower than a year ago," while "the prices of hogs are the lowest in two years."

The labor situation has continued the dominant feature in the iron and steel industry. Due to the fact that the strike was only called on September 22nd., little effect is shown in the September figures for the standard indexes of the industry. Pig-iron production during September amounted to 2,441,554 tons, corresponding to an index number of 105, as compared with 2,743,388 tons during August, corresponding to an index number of 118. Steel-ingot production likewise shows a decrease. The unfilled orders of the United States Steel Corporation at the close of September were 6,284,638 tons, as compared with 6,109,103 tons at the close of August, the respective index numbers being 119 and 116. Operators report continually increased production since the opening of the month.

Buying activity is reported to have centered to considerable extent in pig-iron, the prices of which, both for prompt and for forward delivery, have advanced, though trade reports indicate some tendency towards spot transactions in view of the threatened strike of the bituminous coal miners. Demand for finished products has also been heavy, but there has been reluctance on the part of producers to accept further bookings in certain lines. Increases in the prices of certain products, such as tank plates, structural shapes, and steel bars, have occurred. Premiums are largely offered for prompt delivery. The growing shortage of some forms of finished steel has resulted in depletion of warehouse stocks, but price declines for old materials in Chicago were noted during the second week of the month.

Production of bituminous coal during September was 47,403,000 tons, as compared with 42,883,000 tons during August, the respective index numbers being 128 and 116. Increased production is reported during the present month, the output for the week ending October 11 establishing a new high record for the year. While from Philadelphia it is reported that prices have sagged somewhat, due to the large tonnage thrown on the market as a result of the steel strike, consumers in general have readily taken the coal offered, in view of the threatened strike in the central competitive field. Anthracite coal shipments during the month of September were 5,687,401 tons, corresponding to an index number of 101, as compared with 6,144,144 tons during August, corresponding to an index number of 109. Active demand exists for domestic sizes, but steam sizes are weak. The wage agreement with the miners has been renewed, to continue in effect until April 1, 1920. The output of beehive coke increased from 1,733,971 tons during August, to 1,790,466 tons during September. A decrease is, however, noted since the opening of the steel strike, production during the third week of the strike being but 69 per cent of the prestrike average, although still above the low level prevailing during the second quarter of the year.

Relative quiet continues in the nonferrous metal industries. Transactions in copper have consisted largely of resales, while increases in the prices of lead, tin, and zinc were noted in the first half of the month. In September there was "practical paralysis of the entire shipping of ore and fuel" in the Joplin district, due to an extreme "dearth of cars," and extremely large stocks of ores accumulated before relief came at the close of the month.

No abatement in general manufacturing is noted. The cotton-yarn market continues firm, with inquiries numerous. It is reported that cotton-mill output is contracted for up to the close of the year, and that considerable orders are being booked for 1920. Fine goods continue very firm and high, but from Boston it is reported that fear exists that adjustment of prices of print goods and fancy products to meet the recent advances in the price of cotton may react unfavorably upon demand, or at least cause increased consumption of less expensive grades.

The raw-wool market continues quiet, with prices of high-grade wools firm. Lack of interest in low-grade wools continues, reflecting absence of public demand for low-priced fabrics. Considerable interest is displayed in the prospective offerings of Australian wool by the British Government, and their possible effect upon the market. In worsted yarns there is absence of desire on the part of both buyer and seller to contract ahead for the more distant future. Mill openings of both men's and women's wear woolens for spring are on an allotment basis. It is reported from the Philadelphia district that "they could very easily book new business far into 1920", but that disinclination to do so exists. Marked advances have occurred in the price of raw silk, and an upward tendency in the price of fine silk goods is noted. A scarcity of merchandise is reported in knit goods, with no general contracting for spring delivery, because of price uncertainty, except in the case of silk hosiery, in which orders for next June delivery have been noted. Recent trade reports indicate little placing with manufacturers of new orders for clothing, due apparently to heavy early purchases.

The hide and leather markets during the present month have been relatively quiet, and the upward movement of prices appears to have been checked. A waiting attitude has been largely assumed by tanners with respect to hide purchases, although several large recent sales of packer hides in Chicago have been reported. In leather the between-season inactivity has been noted, but prices in general have been well maintained..Lower grades, however, have moved at concessions in price. Tanners have thus been enabled to catch up in some measure with orders previously booked. Active demand for shoes continues, in excess of the ability of manufacturers to supply. Retailers' purchases have not been restrained by the high prices prevailing. From Boston it is stated that "some of the largest concerns in the United States have reached a point where it will be impossible for them to accept additional orders for five or six months."

The customary seasonal swell in the volume of business continues. Sales, both wholesale and retail, in many sections are reported to be in excess of those for previous months and for the same period last year. Stocks of both wholesalers and retailers in leading lines are running low, and complaint is being made of difficulty in obtaining merchandise. The demand for high-grade goods continues, although in both the Boston and Kansas City districts a growing tendency is noted on the part of consumers to limit the amount spent for various articles, and from the former it is reported that "in buying wearing apparel and other articles of household use, except food, the public in general is not paying the full amount of the increase in prices necessary to obtain the quality which it formerly bought."

A continuance of building activity is reported. Permits issued during September show a seasonal decrease from the August figures, the latter, however, being the record month of the present year. Labor difficulties and shortage and high cost of construction both for labor and material have continued to be retarding factors. Continuance of a satisfactory amount of building throughout the winter is predicted. Seasonal decrease in the demand for lumber is reported from certain districts. Slightly lower prices are reported on certain grades, such as southern pine, while others, in particular western pine, have increased in price. Increased production as yet has succeeded but little in building up stocks.

Official figures for the month of September show a decrease to $161,100,000 in the export balance from the figure of $338,900,000 for the month of August. This is the lowest figure for any month since July, 1917. Accompanying a decrease of approximately $50,000,000 in exports was an increase of $128,000,000 in imports. Interest is displayed in the foreign trade conference which assembled at Atlantic City during the latter part of the month.

Large decreases in exports are shown for meats, chiefly bacon, hams, shoulders and lard, and raw cotton, the September exports of the latter article being 50 per cent less in quantity than the month before. On the other hand exports of breadstuffs, mainly flour and wheat, were larger both in quantity and value than for the preceding two months. Of the total increase since August of about 128 millions in imports, 70 millions represent an increase in the value of crude materials imported, chiefly raw silk from Japan, Egyptian cotton, hides and skins, also fibers, and about 32 millions - an increase in the value of imported articles of food, chiefly sugar from Cuba and coffee from Brazil.

Exports to the United Kingdom, 153.7 millions, show the largest decline for the month, and account for almost the entire decrease in the total exports reported. Exports to France, 51.4 millions, show a decline of about 4 millions since August and approximate those for July. September exports to Italy, 32.9 millions, and to Belgium - 23.6 millions, on the other hand, were considerably larger than the month before. Total exports to Europe during September were about 56 millions less than in August, exports to South America fell off 9.4 millions, those to Africa 2.6 millions, and those to Oceania - 0.8 millions. On the other hand September exports to North America, largely Canada, show a gain since August of 15.4 millions and those to Asia - a gain of 3.6 millions.

On the import side all the important European countries, except Spain, are credited with larger imports than for August, imports from Great Britain alone, 34.7 millions, showing an increase for the month of nearly 10 millions, or about equal to the increase in the combined imports from France, Italy, and Belgium. September imports from Europe as a whole show a continuous increase since July. Imports from Asia were over 40 million in excess of the rather low imports for August, while considerable gains are also shown in the imports from North America and Africa.

In the stock market the present month has been characterized by a continuance of the speculative activity which commenced during the last week in September, and price advances have occurred. Bond prices have shown a tendency to rise, the returning strength of high-grade railroad bonds being especially marked. Transactions in Liberty bonds have been heavy, and they have led the rise in the general investment market. September issues of new securities were the heaviest for any month during the present year, and October issues are reported to show little or no falling off in volume. Speculation was not adversely affected by the increase in call money rates which accompanied the recent great increase in loans of the New York Clearing House banks and borrowings from the Federal Reserve Bank of New York. After touching 15 per cent at the close of September rates remained at a relatively high level throughout the early part of October, again reached 15 per cent on October 14 and 15, since which time they have declined sharply with an increase in available funds and reached a low figure of 4 per cent. An upward tendency in commercial paper rates in New York is reported, as well as a limited demand for acceptances. The customary heavy seasonal demand for funds is generally noted. Rates in other centers have been steady and have not reflected the erratic fluctuations in the New York market. The Board's figures of the volume of check transactions continue at a high level. The banking situation continues to be regarded as sound, though need of caution in loan expansion is emphasized in certain quarters, particularly in view of heavy seasonal requirements for funds and the high-price levels now prevailing. Credit and collection conditions are good and failures, while showing an increase for September over those for the two previous months, continue unprecedentedly small and few.

X-1710.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

Release for morning papers,
Monday, November 3, 1919.

The Federal Reserve Board makes the following announcement with reference to the hearing held in Washington on October 21, 1919, regarding the establishment of a branch Federal Reserve Bank by the Federal Reserve Bank of Kansas City in the southern territory of the Tenth Federal Reserve District.

"The Federal Reserve Board has considered the briefs and oral arguments presented by the respective petitioners in the matter of the establishment of a branch Federal Reserve Bank in the southern portion of the Tenth Federal Reserve District by the Federal Reserve Bank of Kansas City, and has reached the following conclusions:

"While the portion of the district tributary to these cities is being well served in the matter of rediscount facilities by the Federal Reserve Bank of Kansas City, it is the opinion of the Board, however, that a branch with limited powers in the matter of rediscounts, the activities of which should be devoted mainly to the forwarding and receipt of currency and to transit operations, would be a convenience to the member banks and to the public in the territory served by such branch, and would increase the efficiency of the transit system. In view of the proximity of Wichita to Kansas City, it is manifest that a branch located at that point would not give any appreciable additional facilities in this respect to the more remote portions of the District; and the Board will therefore direct the Federal Reserve Bank of Kansas City to establish a branch at either Oklahoma City or Tulsa. In view of the technical nature of transit operations, the Board has requested a report from the Federal Reserve Bank of Kansas City, giving an analysis of the source, volume, and direction of outgoing business, and the volume and direction of incoming business, together with a complete analysis of all mail schedules with reference to the territory to be served by a branch located in one or the other of these two cities. The Federal Reserve Bank of Kansas City has therefore been directed to transmit to the Board, not later than November 25, 1919, the information called for, in order that a decision may be reached as to the proper location of a branch."

FEDERAL RESERVE BOARD

WASHINGTON

November 1,1919.
X-1711

CONFIDENTIAL

Subject: Note Raising Operations.

Dear Sir:-

For the information of your Board of Directors and for such action as they may deem proper, I quote below the text of a communication received from the Chief of the Secret Service Division of the Treasury Department.

"There have been very extensive note-raising operations developed throughout the country recently. Agents of this Service are exerting every effort to suppress the industry, and are almost daily effecting arrests in connection therewith.

In this campaign we have enlisted the cooperation, among others, of the banks, requesting them to promptly notify our agents or some other officer of the law of the receipt of, or any information relating to, this altered currency. We have also requested the banks to carefully note the receipt of any notes, of denominations from $5 up, that have been mutilated by having the ends torn or cut off, and inform the nearest agents of this Service as quickly as possible of the receipt of these mutilated notes, and from whom they were received if possible.

We base this request on the fact that the method employed by the note-raiser, in some instances, is to remove the ends from bills of the larger denominations to be used in raising the bills of smaller denominations. It then becomes necessary to realize on the mutilated bills by presenting them at the banks or the business houses.

While we have endeavored to cover the field and get in touch with as many of the banks as possible, it is realized that with our limited force it is possible that we may not reach all of them and impress on them the great importance of this cooperation. I therefore respectfully request that the Federal Reserve Board communicate with the regional banks on this subject, urging them to lend this important aid to the Secret Service, and that they communicate this request to all member banks as a confidential communication."

Very truly yours,

Governor.

Letter to Chairmen of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 3,1919. X-1712

CONFIDENTIAL

Subject: Marking Raised Currency.

Dear Sir:-

The Federal Reserve Board has received a communication from a Federal Reserve Bank, suggesting that raised currency received by a Federal Reserve Bank should be marked in red ink in some manner clearly to indicate that fact in order to insure against its use for any purpose other than redemption at its proper value.

In view of the fact that it has been brought to the attention of the Board that certain raised notes returned by Federal Reserve Banks to member banks for reclamation, appear to have been put back into circulation, the Board believes that it would be very helpful in restricting the circulation of raised notes to have Federal Reserve Banks and other banks detecting them, mark or stamp them in the manner suggested.

Very truly yours,

Governor.

Letter to all Chairmen except Richmond - copy to Governor.

X-1713

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

To be released for morning papers, Tuesday, November 4, 1919.

The Review of the Month for the November Federal Reserve Bulletin, will say:

PUBLIC AND PRIVATE FINANCE:

The month of October has been unusually free from Government fiscal operations likely to influence in any way the direction of the money market. During the month interest disbursements, including interest payments on the fourth Liberty loan due on October 15 amounted to about $113,000,000, the effect being, as usual, a temporary shifting of funds from Government to private hands and a corresponding rearrangement of bank deposits. Little extraneous influence originating with the Treasury operations has been felt in any other direction. Expenditures for the month have amounted to approximately $736,718,000 while incomes have been $433,012,000. The opinion expressed in the last issue of the Federal Reserve Bulletin that no new certificate issues would be required during the month of October has been justified, the very large cash balance of the Treasury and the substantial yield of the last preceeding tax certificate issues having provided all that was necessary to carry the department through the month.

The month has been an unusually active period in private finance. Great fluctuatings in call money rates and variations in the rates charged on commercial paper have occurred since the end of September. There has been an increasing demand for funds from private business, both in commodities and securities. Speculation is attaining an unprecedented activity and is embracing not only corporation issues of all kinds, but also real estate and many classes of commodities. Prices both of farm lands, staple commodities such as cotton, securities and other properties continued to rise, notwithstanding the reduction of Government purchases and the fact that the Government has itself released to consumers large quantities of goods purchased for Army use. Two factors have clearly developed themselves during the month as dominant in the whole financial situation - the problem of domestic speculation and the policy to be pursued with respect to the demands

on credit resulting from it.

In a technical sense this condition has reflected itself in a weakening of the reserve position of Federal Reserve Banks. The reserve percentage reached on October 31st the figure of 47.9%, that being the lowest point ever reached. As has been pointed out in former issues of the Bulletin, too much importance may be attributed to what is called the "reserve percentage." The decline of the reserve percentage at Federal Reserve Banks ought not to be considered as an isolated phenomenon, but has principal significance in connection with the condition of member banks. These banks rediscount for the purpose of restoring their reserve balance. Such a balance may become depleted for any of several reasons, but in a time like the present the chief factor leading to rediscounting is the expansion of loans and discounts made in favor of customers. Analysis of the assets of member banks therefore becomes necessary in order to ascertain the real meaning of an increase in rediscounts. Such an increase may be due to advances in aid of speculation pure and simple, or it may be the outgrowth of legitimate demand for commercial funds. The member bank in rediscounting naturally selects those items from its portfolio upon which the most favorable rate will be granted by the Federal Reserve Bank. If there be a preference in favor of some specified kind of paper, as is true today of paper secured by Government obligations, such paper almost invariably is selected as the basis for rediscounting. The fact that the rediscounts with Federal Reserve Banks consist so largely as they have heretofore of what is called "war paper" can not therefore be taken as conclusive evidence of the purpose for which the rediscounting has been undertaken. Loan accounts of member banks, as already indicated, may be extended because of the demand for funds for speculatige purposes, or because of advances for strictly commercial and industrial undertakings, or for the purpose of carrying subscriptions to Government securities. Were the differential rate which now favors war loan paper to be reversed so that it would favor commercial paper, it is likely that the portfolios of the Federal Reserve Banks would change in character. Member banks would select their commercial paper as a basis of rediscount, and in consequence Federal Reserve Bank portfolios might consist primarily of commercial bills rather than of war loan paper. A true appreciation of the credit situation therefore can be obtained only by considering the portfolios of Federal Reserve Banks and those of member banks as an aggregate.

OPERATIONS OF MEMBER BANKS:

This view of the case makes it important to consider not only the situation at Federal Reserve Banks, but that at member banks as well. In the Federal Reserve Bulletin for October there was published the result of a statistical analysis of the entire war loan paper situation, which showed that as of June thirtieth last, the total volume of such paper in the banking system might be taken as about six and five-tenths billions of dollars. There has been a decrease in such war paper since June thirtieth, but there has been a continued expansion of loans and investments of member banks as shown by the following figures:

MOVEMENT OF LOANS AND INVESTMENTS OF FEDERAL RESERVE BANKS, AND OF ABOUT 775 MEMBER BANKS IN SELECTED CITIES.

Date	Federal Reserve Banks	Member Banks in Selected Cities
June 27, 1919	$2,354,167,000	$14,350,197,000
July 25, 1919	2,482,558,000	14,379,579,000
August 29, 1919	2,448,977,000	14,968,907,000
September 26, 1919	2,503,088,000	15,297,458,000
October 24, 1919	2,751,751,000	15,537,104,000

The growing volume of discounts made by the banking system as a whole, in its turn, must be subjected to the same criteria of judgment that have been indicated with the holdings of the Federal Reserve Banks. There is no available test of the reasons giving rise to such borrowing except the statements or information which may be furnished by the actural borrower, to the bank at which he discounts.

DISCOUNTS AND RATES:

The real character of the situation depends upon the use that is being made by member banks of the credit facilities to be obtained at Federal Reserve Banks. It is just here that the present situation must be regarded as unsatisfactory. The evidence which is currently available seems to point to the fact that member banks, under the influence of strong private demand, are in not a few cases greatly expanding their loans. The reports which come to the Board from the Federal Reserve Districts, general results of which are reviewed in the summary of business conditions for the current month, strongly suggest a marked advance in the growth of speculative transactions. It must be borne in mind that the growth of activity of this kind weakens the entire banking situation. Federal Reserve Banks can not, in a time like the present, easily control this condition of affairs merely through changes of discount rates, however important the influence exercised by such changes. The fact that there is as yet no free movement of gold between nations and that balances of trade are wholly abnormal prevents rediscount changes from exerting the effect which they would in normal times. Cooperation on the part of member banks is therefore necessary to the preservation of a satisfactory condition of strength throughout the banking system as a whole, and good results can not be obtained through any single method, least of all through the use of those modes of restraint and correction which are in ordinary circumstances sufficient for the purpose. The reserve percentage, however, subject to the qualifications and restrictions which have been stated, is an index of the changing character of the situation, and one whose implications should be constantly kept in mind.

As was stated in the Federal Reserve Bulletin for October, the disappearance of the Treasury from the long-term loan market and the rapid reduction in its requirements for short-term accommodation foreshadows the approach of the time when the financial operations of the Government will cease to be the important factor in shaping Reserve Bank policies and rates which they have been. A review of all the conditions in the banking situation has confirmed the Board in the view that in the application of its discount policy an advance of rates should no longer be deferred.

FEDERAL RESERVE BOARD

WASHINGTON

November 4, 1919

X-1714

SUBJECT: Campaign for New Par Points.

Dear Sir:

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of October 28th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

Very truly yours,

Assistant Secretary.

Incl.

CAMPAIGN FOR NEW PAR POINTS

REPORT OF FEDERAL RESERVE BANKS, OCTOBER 31, 1919. X-1714

Federal Reserve Bank of	National Banks in District	State Bank Members	Total Member Banks	Non-member Banks on par List	Ratio of non-member Banks on Par List to total non-member banks in District	Number of Banks added to Par List during Oct. 1919	No. of Banks added to Par List since Jan. 1, 1919	No. of non-member banks not on Par List	Total No. nonmember banks in District
					%				
Boston	394	36	430	241	100				241
New York	631	116	747	322	100				322
Philadelphia	637	38	675	409	100		93		409
Cleveland	749	92	841	1,054	96.8	43	387	35	1,089
Richmond	532	43	575	445	30.5	20	171	1,017	1,462
Atlanta	368	61	429	351	22.1	5	101	1,241	1,592
Chicago	1,048	318	1,366	3,524	84.0	325	1,158	671	4,195
St.Louis	466	65	531	1,966	74.0	144	963	692	2,658
Minneapolis	828	84	912	1,491	51.8		322	1,387	2,878
Kansas City	984	41	1,025	3,044	92.1	218	863	262	3,306
Dallas	635	118	753	903	74.0	205	671	317	1,220
San Francisco	575	119	694	934	88.9	26	--	125	1,059
Total	7,847	1,131	8,978	14,684	71.9	986	4,729	5,747	20,431

FEDERAL RESERVE BOARD
WASHINGTON

NOVEMBER 4, 1919

FEDERAL RESERVE BOARD

WASHINGTON

November 6,1919.
X-1716

SUBJECT: Topics for Discussion at Conference of Governors on November 19,1919.

Dear Sir:-

There is enclosed a list of topics which will be presented for discussion at the conference on the 19th instant. This list embraces topics which have been suggested by several of the Governors as well as some which have been offered by members of the Federal Reserve Board, and it is believed that it is sufficiently comprehensive to absorb all the time available for the conference. The list, however, is not a closed one, and if there are any other topics which any Governor would like to submit, they can be considered.

Very truly yours,

Enclosure.

Governor.

Letter to each Governor

TOPICS FOR DISCUSSION AT GOVERNORS' CONFERENCE
WEDNESDAY, NOVEMBER 19, 1919.

1: RESERVES:

(a) The Federal Reserve Board is authorized to reclassify existing reserve and central reserve cities.
Should this power be exercised, and if so, how?
Should Congress be asked to amend Section 19 so as to require uniform reserves throughout the country, differentials to be based on the various classes of deposits?

(b) Is there a demand for the payment of interest on reserve deposits, and should such a policy be considered?

2: SHOULD FEDERAL RESERVE BANKS EXERT ANY INFLUENCE UPON THE POLICY OF MEMBER BANKS IN THE AMOUNT OF INTEREST ALLOWED ON DEPOSITS?

3: SHOULD EFFORTS BE MADE TO INDUCE MEMBER BANKS TO CONTINUE THE PROCESS OF SORTING AND DEPOSITING GOLD CERTIFICATES IN FEDERAL RESERVE BANKS?

4: SHOULD THE FEDERAL RESERVE BANKS CONTINUE TO ABSORB THE ABRASION LOSS ON GOLD COIN?

5: TRANSIT OPERATIONS:

(a) Method of treatment of transit problems through meetings of transit managers.

(b) In the interest of more prompt presentation and payment of checks, should not nearby banks in given sections clear on each other directly, instead of through Federal Reserve Banks? Should the Federal Reserve Banks promote the establishment of such local clearing houses?

(c) Collection of Drafts, Bills of Exchange, etc. Should the collection facilities of the Federal Reserve Banks be extended to include collection of commercial paper maturing in Federal Reserve cities and branch cities, and credit given on date of maturity subject to final payment?

(d) Transfer Drafts and Exchange Drafts: The Transit Conference held in Cleveland on June 25, 1919, recommended that limit on exchange drafts be removed. Is it desirable to remove the limit on exchange drafts and discontinue the use of transfer drafts?

(e) Transit Expense: In view of the fact that no uniform method has been adopted of determining transit expense, should not this segregation be abolished?

(f) Use of express companies by Federal Reserve Banks in collecting checks.

(g) Prospects of putting entire country on par basis.

6: RELATIONS WITH STATE BANKS.

(a) State Bank Membership: Is any organized work being conducted similar to the campaign to get par points?

(b) Fraudulent advertisement or claim of membership in Federal Reserve System. What means exist for preventing?

7: DISCOUNT RATES:

(a) Review of policy in the light of effect of recent changes.

(b) Effect of 15-day collateral rates: Should differential in favor of short time borrowings be discontinued?

(c) Calculation of Interest at 365 Days per Year: Present practice is to compute interest on notes rediscounted on basis of 365 days and on bills purchased in the open market at 360 days per year. Should basis of calculation be uniform?

8: CREDIT SITUATION:

(a) Discussion of the policy of the system. Governors are requested to bring some report of general price movements as to real estate, commodities and securities in their respective districts.

(b) Experience of the governors as to the exercise of direct pressure upon individual banks that are inclined to borrow too freely.

(c) Discussion of the complicated situation presented by the amendment to Section 5200 U.S.R.S.

9: DISCUSSION OF FOREIGN BUSINESS OF RESERVE SYSTEM AND HOW IT IS MANAGED.

10: ADMINISTRATION PROBLEMS:

(a) Salary adjustments.

(1) Special compensation to meet high living costs.

(2) Employe's representation.

(3) Salary standardization.

(4) Overtime policy.

10: ADMINISTRATION PROBLEMS: continued.

(b) Thrift and Savings Policies:

(1) Savings fund.

(2) Home building.

(3) Cooperative store.

(c) Health Program:

(1) Medical examinations, including both eyes and teeth.

(d) Selection and Education:

(1) Mental tests.

(2) Training school.

(3) Course in Federal Reserve Act.

(e) Personnel Service:

(1) Cafeteria.

(2) Rest periods.

(3) Recreation.

(f) Pension plans:

(1) Group insurance.

(2) Disability and retirement allowances.

(g) Bank Protection:

(1) Policing.

(2) Riot duty.

11: BRANCH BANKS:

(a) Published Comparisons of Branch Operations and Expenses: Inasmuch as statistics afford no opportunity for comparison unless the functions and operations are comparable should they not be subjected to analysis or be discontinued?

(b) Advisability of conference of Branch Bank Managers to study problems of branch bank operations.

12: U.S. TREASURER'S ACCOUNT:

(a) Can more prompt and dependable verifications and reconcilements be obtained?

FEDERAL RESERVE BOARD

WASHINGTON

CONFIRMATION OF TELEGRAM

November 6,1919.
X-1717

Morss	Boston
Strong	New York
Passmore	Philadelphia
Fancher	Cleveland
Seay	Richmond
Wellborn	Atlanta
McDougal	Chicago
Biggs	St. Louis
Young	Minneapolis
Miller	Kansas City
Van Zandt	Dallas
Calkins	San Francisco

Board hopes you will do what you can to discourage member banks from using advance in Federal Reserve Banks rates as excuse for increasing interest charge to those borrowers on Government securities who are doing what may be reasonably expected in the way of liquidation. In such cases member banks should be satisfied with moderate difference in their favor. Board does not mean to suggest reduction in rates heretofore charged customers on such transactions or to advocate any policy which would result in delay of orderly liquidation of bond secured loans.

HARDING.

THE SECRETARY OF THE TREASURY
WASHINGTON

COPY

November 5, 1919. X-1718 a

Dear Governor Harding:

I hope that the Federal Reserve Board will not allow the Governors of the Federal Reserve Banks to rely wholly or too heavily, for the prevention of the abuse of the facilities of the Federal Reserve System, upon the increase in rates now established with the approval of the Board, myself included.

The experience of all European countries (and Japan), including those countries which have been neutral in the war and those which have maintained a high central bank rate, supports the view that discount rates will not suffice in these extraordinary times.

The Reserve Banks' rates should, of course, scientifically be above the commercial rate and not below it. That cannot happen until the independent resources of the banks suffice for the normal requirements of their customers for commercial, industrial and Government purposes. Banks cannot be expected to meet these requirements habitually at a loss. Their dependence upon the Federal Reserve System should be seasonal or occasional and not habitual. Until that condition comes about as a result of the production and saving of wealth the tendency will be, as Reserve Bank rates are increased, for the rates to the Government and rates to the commercial borrower to be increased in turn. The world has been for five years consuming or destroying more than it has produced. My own belief has been and is that with the curtailment of export demand consequent upon the curtailment of foreign credits and with industrial production proceeding full steam ahead we should soon have reached an equilibrium in this country at least. In the meantime, however, the labor situation has become so acute as gravely to threaten production and the speculative mania has developed to such an extent as gravely to threaten our credit structure.

The conditions under which changes in the Reserve Banks' rates of discount would operate effectively do not exist here today. An increase in the discount rate will not result in the importation, nor curtail the exportation, of gold to any material amount. It will not result in a curtailment of the importation of goods nor in increasing our exports materially. In the present position of the international balances and of the foreign exchanges and because of gold embargoes the Federal Reserve Bank rates cannot function internationally, and will operate solely upon the domestic situation. In that condition an important further increase in Federal Reserve Bank rates might have the effect of penalizing and discouraging the borrower for commercial and industrial purposes, thus curtailing production and distribution and increasing the shortage of goods, and consequently the price of them, and thus, in turn, stimulating speculation. (An increase in rates (per cent. per annum) falls very lightly upon the borrower for speculative purposes, who figures a very large profit on the turnover in a day, a week, a month or some other short period). It might have also a very grave effect upon the Government's finances.

In consequence of the war the Government has issued some $25,000,000,000 of interest bearing securities which are of prime eligibility. Before the war, when the Government's debt was only $1,000,000,000 and that all stored away in strong boxes, the possession of eligible paper was very strong presumptive evidence of the right of a member banks to borrow. Now and for the life of this great war debt the possession of eligible paper will be no evidence at all.

Therefore, I believe it to be of prime importance that the Federal Reserve Board should insist upon and that the Governors of the banks should exercise a firm discrimination in making loans to prevent abuse of the facilities of the

Federal Reserve System in support of the reckless speculation in stocks, land, cotton, clothing, foodstuffs and commodities generally.

We cannot trust to the copybook texts. Making credit more expensive will not suffice. There is no precedent in history for the great war which we have been through nor for the conditions now existing. The Reserve Bank Governor must raise his mind above the language of the textbooks and face the situation which exists. He must have courage to act promptly and with confidence in his own integrity to prevent abuse of the facilities of the Federal Reserve System by the customers of the Federal Reserve Banks, however powerful or influential.

Speculation in stocks on the New York Stock Exchange is no more vicious in its effect upon the welfare of the people and upon our credit structure than speculation in cotton or in land or in commodities generally. But the New York Stock Exchange is the greatest single organized user of credit for speculative purposes. It is the organized instrument of a countrywide speculation. I believe that the practice of financing speculative transactions in stocks by loans on call, with daily settlements, is unsound and dangerous to the general welfare. Call money loaned to carry speculative transactions in stocks is only liquid when there is no need. The paper is not self-liquidating and, in the case of an emergency, as, for example, upon the outbreak of the European war, and throughout the period of our participation in the war, such loans are in the mass uncollectible. The use of Liberty Bonds, Victory Notes and Treasury Certificates as collateral for borrowings made by member banks from the Federal Reserve Banks for the purpose of carrying speculative transactions in stocks makes it the right as well as the duty of the Federal Reserve authorities to see to it that the methods of financing such transactions are reformed and reformed immediately.

Open and notorious manipulation of stocks has been taking place during the period of, say, nine months, since the removal of the control of the Sub-Committee on Money of the Liberty Loan Committee. This manipulation, which takes the form of putting up the price first of one stock and then of another, no matter what may be the conditions, for the purpose of stimulating interest on the part of the uninitiated public, is, I imagine, contrary to the law of the State of New York and the rules of the New York Stock Exchange. In any event, it needs only vigorous action to put an end to it. The Federal Reserve Bank of New York in its relation to the Subcommittee on Money of the Liberty Loan Committee, which Committee was at all times in touch with the officers of the Stock Exchange, naturally sought the views of the Treasury by reason of the fact that its prime duty concerned the sale of Liberty Bonds. A control now put into effect will be primarily for the conservation of the general credit situation and should therefore be initiated and supervised, not by the Treasury, but by the Federal Reserve Board.

I need not say that such steps should be taken not only firmly but with discretion and in such a way as not to involve grave hardship to individuals or injury to the general welfare.

I have written this letter believing that you and the other members of the Board are in general accord with the principles and views expressed in it and that it might be of some assistance to you in dealing with the problem with the Governors of the Banks to have this written expression of the views of one of the members of the Board whose other official duties prevent his frequent attendance at your meetings.

I need scarcely add that this letter is written in no spirit of criticism. The Governors of the Federal Reserve Banks have served their country with devotion, courage and wisdom during the trying period that is past. It would be difficult for me to give adequate praise to the patriotic spirit of self-sacrifice which has actuated them or adequate appreciation to the skill and sagacity with which they have performed their duties. During the war they have naturally turned for leadership to the Treasury since its operations were the dominating factor in the financial situation. It would, however, be a great misfortune if, now that the Treasury operations are on a diminishing scale, the Governors of the Federal Reserve Banks are allowed to feel that the problems of the future were for them to solve each according to his own best judgment. The need of leadership is no less great, the need of examining the situation from a broad national and international point of view is no less imperative. I look to see the Federal Reserve Board, not critically nor aggressively but patiently and persistently, provide this leadership.

Very truly yours,

CARTER GLASS.

Hon. W.P.G. Harding,
Governor, Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

November 7,1919.
X-1719

Subject: Recommendations made at Conference of Federal Reserve Agents, October 22-24, 1919.

Dear Sir:-

The Federal Reserve Board has considered the recommendations of the Federal Reserve Agents' Conference, held in Washington, Oct. 22-24, 1919, copy of which is attached hereto, and submits the following comment with reference to certain recommendations made.

FEDERAL RESERVE AGENTS' SPECIAL FUNCTIONS

(a) NOTE ISSUE

(3) Redemptions.

The Federal Reserve Board wishes to urge upon the Federal Reserve Agents the necessity for closer sorting of unfit Federal Reserve notes forwarded to Washington for redemption, and requests that this matter be brought to the attention of the officers of the Federal Reserve Banks. At the present time, about $11,000,000 of Federal Reserve notes are being shipped to Federal Reserve Agents from Washington daily, while the output of the Bureau of Engraving and Printing is only about $7,000,000. In order to meet the heavy fall demand for currency, and furthermore, in the interests of economy, it is necessary that Federal Reserve Banks sort their notes much closer and forward to Washington for redemption only those notes which are unfit for further circulation. In a recent communication which the Board received from the Treasurer of the United States, the statement was made that it was estimated the remittances received from some of the Federal Reserve Banks contained from 35 to 60% fit notes.

(4) Design of Federal Reserve Notes.

The Board has under consideration the recommendation that steps be taken to change the design of Federal Reserve notes in order to make fraudulent use more difficult. The Board desires, however, that no publicity be given to this matter, feeling that perhaps more unscrupulous persons might be tempted to engage in counterfeiting or raising Federal Reserve notes.

(g) RELATIONS WITH MEMBER BANKS.

(3) Proper use of system by members - can a program be formulated?

The Board is in accord with the expression of opinion that personal contact with member banks is very desirable, and feels that each Federal Reserve Bank should keep in personal touch with as large a number of its member banks as possible, the method to be determined by each Federal Reserve Bank to meet its own local conditions.

(h) RELATIONS WITH NON-MEMBER BANKS.

(1) What can be done to increase membership?

The Federal Reserve Board approved the recommendation "that an energetic and organized campaign should be immediately inaugurated in every Federal Reserve District to secure membership in the Federal Reserve System of eligible and desirable state banks", and believes this to be an opportune time in the majority of districts to start such a campaign, in view of the missionary work which has already been done by the officers of Reserve Banks in their par point campaigns; and believes that a still more intensive state bank membership campaign should be launched immediately following the first of the year; and concurs with the recommendation that the campaign should also embrace educational work among member banks to acquaint them with the value and the proper use of the facilities of the Federal Reserve System.

FEDERAL RESERVE BANK POLICIES

(a) PAR POINT CAMPAIGN.

The Board concurs with the recommendation that on January 1, 1920, those states in which there are relatively few non-par remitting banks, be placed on the par list in entirety, and that checks of those banks which continue to be unwilling to remit at par, be collected by agents, express companies or otherwise.

(a) 2. "We deem it feasible and desirable to obtain cooperation and action from the clearing houses throughout the country in modifying schedules wherein the time element acts in a discriminating way against certain points and sections of the country."

The Board concurs in the above recommendation and desires that Federal Reserve Agents endeavor to obtain cooperation and action from the clearing houses in their districts with a view to modifying schedules wherein the time element acts in a discriminating way against certain points and sections of the country.

(h) COMPENSATION OF EMPLOYEES.

(1) Wages and Bonuses.

The Board has considered the recommendation on the above subject, but in view of the fact that the matter will be discussed fully at the Conference with the Governors on the 19th instant, does not deem it advisable to make any further comments at this time.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

X-1719a

There follow the recommendations of the Federal Reserve Agents to the Federal Reserve Board, adopted by the Federal Reserve Agents' Conference held in Washington October 22 - 24, 1919.

FEDERAL RESERVE AGENT'S SPECIAL FUNCTIONS

(a) NOTE ISSUE

(1) Discussion of expansion and contraction.

Expansion and contraction in Federal Reserve notes is dependent in general on the price level. While in agricultural districts there has been expansion and contraction to meet seasonal demands, the extent of contraction is still dependent on the price level, for the figures show as the level of prices increases Federal Reserve notes in circulation remain after each seasonal fluctuation at a higher level.

Unless some direct method can be devised to decrease the price level there can be no permanent contraction of Federal Reserve notes, except through curtailment of public demand through economy and savings.

(2) Supply of coin and currency.

In those districts where it is generally known that the Federal Reserve Bank supplies currency free of all transportation cost, the Federal Reserve Bank supplies its district almost completely.

It is suggested that if a compaign of education is conducted in all districts so that the member banks know they can get currency without cost from their Federal Reserve Banks each Federal Reserve Bank will supply its district and add to its popularity, and this service can be used as an argument for enhancing the value of membership. In some of the large cities correspondent banks are shipping out currency to member banks in other districts, a practice which this educational work will tend to discourage.

(3) Redemption.

The volume of shipments for redemption by member banks and by Federal Reserve Banks can be reduced by a closer sorting of unfit Federal Reserve notes in all Federal Reserve Banks and also by demands on the Treasury Department for currency in Federal Reserve districts being supplied by local Federal Reserve Banks rather than by shipments of Federal Reserve notes of other Federal Reserve Banks into a Federal Reserve district.

(4) Design of Federal Reserve notes.

It is recommended that immediate steps be taken to improve the design of Federal Reserve notes in order to make fradulent use more difficult, and to expedite sorting.

The conference submitted the following report for the information of the Board.

Mr. Chase reports as follows:

> From a practical standpoint, I think the design on Federal Reserve notes could be improved by adopting two changes which I understand are the patented property of Edward B. Andrus of the Cosmopolitan Trust Company of Boston. He has perfected and patented an improved design for currency which embraces among other features the two following, which are of considerable merit:
>
> 1. That the figures on the smaller denominations of bills be larger than the figures on the larger denominations so that genuine figures from the larger denominations could not be torn off and pasted over the figures of the smaller denominations as has been done throughout the country of late on a large scale.
> 2. Mr. Andrus has perfected a design on the diagonal principle so that however it may be placed a note is always right side up. This does not improve the artistic appearance of the notes but it would be a tremendous practical advantage to people who actually handle currency, especially for banks such as ours, in which hours of labor are wasted in a day merely in arranging notes right side up and right side to.

(e) CLAYTON ACT

(1) Should existing permits be revised?

It is the judgment of this conference that the policy of the Federal Reserve Board in determining what is substantial competition under the Clayton Act amended has resulted satisfactorily and that no review of present permits is necessary except in those cases where a decided and known change has taken place in the nature of the business of the institutions with interlocking directors.

(g) RELATIONS WITH MEMBER BANKS

(1) Services, present and prospective; and their cost.

The service afforded by the Federal Reserve Banks is valuable to member banks and is, or should be, an inducement to membership on the part of nonmembers. Dividends are limited by law to six per cent, a fair return on capital investment. Interest on balances is very properly disallowed. Nevertheless the present large earnings and prospective profits are, to a large extent, the result of use of the capital and reserves of member banks, and such member banks should, therefore, be entitled to the largest possible return in the form of service dividends. There seems to be no reason to believe that the cost of operation should in the future advance beyond a normal increase due to natural growth, and therefore, there is nothing to prevent the continuance of such dividends in service.

(2) Are any members considering withdrawing?

A number of banks have already withdrawn from membership and it appears that some others have filed application for withdrawal. Some banks having indicated a disposition to withdraw have concluded not to do so after a personal visit from an officer of the Federal Reserve Banks, it being demonstrated in these cases that the dissatisfied member had an inadequate conception of the real purpose of the system and a lack of comprehension of benefits to be obtained through proper use of the facilities offered.

In general, it appears that withdrawals may be classified under two groups -- first, those who wish to make membership merely a source of direct and increased profit through excessive use or abuse of the privileges granted, (which members are of no benefit to the system); and second, such members as come in through purely patriotic motives, having little or no occasion to use the rediscounting privileges, and therefore figure that continuing membership means lessened profits without compensating benefits. It is likely that in such instances, or most of them, a personal visit by some well qualified representative of the Federal Reserve Bank would result in the abandonment of intention to withdraw.

(3) Proper use of system by members -- can a program be formulated?

It is impracticable to frame a definite program for universal application, for each district has its own peculiar conditions which must be dealt with accordingly. However, in important respects a proper use of the facilities of the system can be brought about and should be encouraged on the part of member banks throughout the country without abuse of the privilege. It is manifest that many member banks are as yet without proper knowledge in these matters. It is suggested that personal touch and acquaintance properly followed up may open the way for correction of this situation. The particular method, however, must be worked out in each district according to local conditions.

(h) RELATIONS WITH NONMEMBER BANKS.

(1) What can be done to increase membership?

We are convinced that personal contact and discussion furnishes the most practical method of increasing membership. The appeal to patriotism alone is no longer effective. Desirable nonmember banks are already largely informed, in a general way, at least, as to the system. The best advertisement is a satisfied customer. If our present members receive satisfactory service, they will recommend it to others.

We believe that an energetic and organized campaign should be immediately inaugurated in every Federal Reserve District to secure membership in the Federal Reserve System of eligible and desirable state banks and that any proper and legitimate expense necessary to reasonable success should be incurred. Included in this effort and as an aid to its accomplishment there should be a general and intensive campaign to acquaint member banks with the value and proper use of the facilities of the Federal Reserve System.

(i) RELATIONS WITH PUBLIC.

(1 - 2) We believe in publicity, but we also believe that it should be specialized publicity, and that it should be directed from time to time toward the objectives that we are anxious to reach. In banks, the directors as well as the officers, should be listed and gone after. A mailing list of the district leaders in trade, industry and agriculture should be kept and added to from time to time for this purpose.

FEDERAL RESERVE BANK POLICIES

(a) PAR POINT CAMPAIGN.

In preparing this report the Committee had before it reports made yesterday by the several chairmen of the results of the campaign for par collections in their several districts. Two things were developed by these reports.

(1) The proposition of the Federal Reserve Board to insist upon the use of symbols on checks had given an impetus to the campaign, since reserve banks as well as other banks foresaw the difficulties in its practical operation together with the discrimination against non-remitting banks that the use of the symbols would provoke.

(2) Satisfactory progress is being made in a majority of the districts, and it appears that when non-remitting banks were notified that on a fixed date checks on themselves would be put on the par list and collected by agents, express companies, or otherwise, over 80 per cent of the banks thus notified signed agreements to remit at par.

We recommend that in States where there are relatively few non-remitting banks, such non-remitting banks be notified that not later than January 1st, their checks will be put on the par list and collected in the manner heretofore mentioned; that in those States that have a large number of non-remitting banks, such banks be notified that not later than March 1st checks on themselves cleared through the Federal Reserve Banks will be collected at par.

Such action is justified since Federal Reserve Banks are paying the cost of currency shipments.

While we do not believe the symbol plan is necessary in States that are entirely on the par list, we recommend that the Board do not withdraw at this time its intention of using such plan.

In view of the apparent ambiguity of that part of Section 16 of the Federal Reserve Act relating to the fixing by the Federal Reserve Board of charges to be made on checks cleared through Federal Reserve Banks, we further recommend that the Board defer promulgating a regulation of this kind until at least after the completion of the campaign for par points. It is almost impossible to make a fair and uniform charge that will include interest for transit time as well as compensation for risk and service. These latter charges depend upon the varing conditions in the several districts together with the value of the customers' endorsement and account.

(Mr. McCord and Mr. Rich wished to be recorded as voting against this paragraph.)

We deem it feasible and desirable to obtain cooperation and action from the clearing houses throughout the country in modifying schedules wherein the time element acts in a discriminating way against certain points and sections of the country.

(b) AMENDMENTS.

(1) Reserve and Net Deposits.

There does not appear to be any demand at the present time for a revision of the reserve situation or the practice of arriving at the net deposits upon which reserves are to be calculated that would warrant your Committee in recommending changes without more careful study and analysis of the situation than the limited time given the Committee to discuss the subject would allow.

It would be impossible, both from the National Bank and member State Bank standpoint, to have changes recommended, especially those requiring legislative action, without the greatest study and care as to the effect of those changes on the different classes of banks and commercial, industrial and agricultural interests in different sections of the country.

(c) RATES

Of the topics assigned to the Committee there has only been opportunity to consider briefly the question of the present expansion of credit and what methods of control of credit may be successfully used by the Federal Reserve Banks in view of the Government's past and prospective financial program.

The increasing demands for credit appear to come (a) from the higher costs of commodities and labor in the production and distribution of goods, caused by excess of demand over supply, and (b) from the higher prices of securities, land, and other forms of fixed property, as well as of many commodities, caused by active speculation all over the country.

The normal check for the Federal Reserve Banks to use is a higher discount rate. But in the opinion of your Committee the conditions prevailing at home and abroad are so abnormal as to render this method not wholly effective of itself. The European countries are extremely short of goods, and we ourselves have not yet been able to satisfy the accumulated demand for goods resulting from two years of patriotic self-denial on the one hand and a more widely diffused spending power on the other. Furthermore, international trade is extremely unsettled and all the important European exchanges are heavily in our favor. It is evident that the use of credit for producing the goods of which the world is short should not be unduly curtailed, and it seems equally evident that the immoderate use of credit by those engaged in speculation in securities, land and commodities to force prices higher is not only undesirable from its effect on the cost of living but is laying the foundation for future collapse and depression.

Some increase in the bank rate, however, seems the necessary first step in any program for the restraint of undesirable credit expansion, as an indication to the banks that, with the war financing of the Government now on a declining

(c) RATES (continued)

scale, the Federal Reserve Banks may be expected henceforth to function normally. But such increase, which need not be large, or uniform in all districts, would be ineffective unless accompanied by a campaign, undertaken gradually and with great discretion to secure greater moderation by banks in the extension of credit for speculative and other undesirable purpose.

The fact that Government financing is on a descending scale no longer seems to require such a degree of uniformity in Federal Reserve Bank rates as prevailed during the war, when the Liberty bond rate necessarily overshadowed all others and practically dictated uniformity. It is the belief of your Committee that rates at the several banks need no longer be established either simultaneously or at similar levels.

Your Committee is of the opinion that the present preferential rate on government paper has served its purpose and may now or shortly be modified or withdrawn, and that in future rates at which government secured paper is taken by Federal Reserve Banks should be such as not to permit rediscounting at a profit over the coupon or interest rate.

(h) COMPENSATION OF EMPLOYEES

(1) Wages and Bonuses.

Bonuses, as such, are ordinarily given by commercial banks, manufacturing and industrial institutions, as an act of grace, or as a bounty or in appreciation of loyal and faithful service. In concerns conducted for profit, when the gains of the business have been large and the profits are subject to distribution in the reasonable disrection of its principal owners, there can not only be no objection to the granting of this bonus to employees, but the practice may often be commended. It is believed, however, that the reasons underlying the granting of bonuses by concerns organized and conducted for profit can have no application to Federal Reserve Banks whose earnings are subject to definite distribution under the law. Bonuses in Federal Reserve Banks can only be justified and upheld as in the nature of readjustment of salary if and when made necessary by unusual conditions, such as now obtain, and which have obtained now for a considerable time. We believe that the correct rule should be for each Federal Reserve Bank to fix at stated and not too frequent intervals the salary of each employee and this with some reference to the scale of pay for similar work prevailing in the section where such bank is located, but more with especial reference to the nature of the employee's work, and the experience, ability and fidelity of the employee. We think it poor economy to fix salaries at unreasonably low figures and manifestly wrong tp pay a wage unreasonably high. There is a middle ground where salaries would be fixed in a spirit of consideration of the value of the services of the employee and in a like spirit of exact justice to the bank. Under normal conditions we believe all compensations should be fixed in definite salaries, with no promise, expressed or implied, that a bonus would be paid.

(h) COMPENSATION OF EMPLOYEES continued

(1) Wages and Bonuses. continued.

We believe, however, that under present conditions the payment of reasonable and substantial bonuses is required and demanded both as an act of justice to the employees and in the interest of the Federal Reserve Banks. The universal and rather unexpected increase in the cost and expense of living, including an unprecedented increase in the cost of housing, makes the granting of fair bonuses seem an act of needed justice to the employee. The competition for good clerical help, not only among banks but with railways, manufacturing and industrial concerns, and the general granting by practically all such businesses of considerable and sometimes generous bonuses seems to make it almost a matter of necessity for Federal Reserve Banks to follow a somewhat similar course if they are to maintain their organizations unimpaired and to retain their help with any feeling of staisfaction.

We do not believe it practicable to fix any scale of bonus payments which shall be uniform among all banks. The scale of bonuses to be paid should be left to the sound discretion of the Boards of Directors of the several Federal Reserve Districts, subject, of course, to the control and approval of the Federal Reserve Board. We think that it could well be stated in the letter accompanying the transmission of such bonus checks that the payment of same under present conditions was not to be understood as furnishing any precedent for the future.

(Mr. Hardy voted "no" on this report.)

FEDERAL RESERVE BOARD

WASHINGTON

November 10, 1919

X-1720

SUBJECT: Fragments of Mutilated Notes

Dear Sir:-

The Board has received a letter from one of the Federal Reserve Banks, from which the following is an extract:

> "We have found in sorting and strapping unfit notes that we accumulate large quantities of torn portions of notes, which, if obtained by dishonest people, might be used for the purpose of raising other notes. Our tellers are instructed to keep these bits of notes in their possession and put them away in their safes at night, as they do their cash, and periodically these torn bits are burned under proper supervision."

It appears that it would be desirable to require tellers to turn over to a designated official all fragments of notes in order that any danger of their misuse may be avoided.

Very truly yours,

Governor.

Letter to Chairman of each Federal Reserve Bank.

FEDERAL RESERVE BOARD

WASHINGTON

November 13,1919.
X-1721

Subject: Questionnaires for Employees of Federal Reserve Banks.

Dear Sir:-

You will receive within a short time a circular letter from Mr. Willis, Director of the Division of Analysis and Research, asking for information as to the number and classification of persons employed by your bank receiving annual salaries of various amounts not exceeding five thousand dollars.

This Division has also prepared a questionnaire relating to the incomes and expenses of employees of Federal Reserve Banks, which has been printed. A number of copies of this questionnaire will be sent direct to your bank from the Government Printing Office within the next few days. A memorandum of explanation and a letter setting forth a uniform plan of handling the matter will also be transmitted by the Division of Analysis and Research. If for any reason you should deem it inadvisable to distribute the questionnaires, you are not required to do so, but are requested in that event to communicate to the Board the reasons for objecting to their distribution.

Very truly yours;

Governor.

Letter to all governors.
Copy to all Chairmen.

FEDERAL RESERVE BOARD

WASHINGTON

November 12, 1919.
X-1722

Subject: Preparation of Annual Report.

Dear Sir:-

It was explained to you when you were here at the recent conference of Federal Reserve Agents that the Joint Committee on Printing had prescribed certain limitations as to the size of the volume containing the Annual Report of the Board and the exhibits and supplements thereto. Therefore, should the reports of the Federal Reserve Agents be published as heretofore as supplements to the Board's report it would probably be necessary to place restrictions upon their scope and length, which might be unsatisfactory to the banks in the respective districts and to the Federal Reserve Agents themselves. The Board has, therefore, decided that it will not ask you to observe closely the outlined limitations provided for previous reports, but to ask instead, that you make such a report as, in your judgment, will give a satisfactory review of the various financial and commercial activities of your district during the period covered by the report.

These reports can be published in full by each Federal Reserve Bank and distributed on an agreed date in advance of the publication of the Board's report. It might be desirable to have the reports from all twelve districts bound in a single volume, which can be done very readily with comparatively small expense. The Board will in its own report publish an abstract of the report of each Federal Reserve Agent instead of publishing the reports in full, as heretofore, and in order to assist the Board in the preparation of these abstracts you are requested to give, immediately following the introduction, a general review of the service and activities of the Federal Reserve Bank during the year, to be followed by a statement and discussion of earnings and expenses.

For such use as you may care to make of it in the preparation of your annual report, there is enclosed herewith a copy of Board's circular letter of November 15, 1918, (X-1270) with the request that you transfer Section 2, relating to general business and banking conditions in your district, to the end of the outline.

Very truly yours,

Governor.

Letter to all F.R. Agents.

FEDERAL RESERVE BOARD

WASHINGTON

November 15,1918.

X-1270

SUBJECT: PREPARATION OF ANNUAL REPORT.

Dear Sir:-

In the preparation of your Annual Report for 1918, it is suggested that you follow substantially the outlines adopted in 1916 with the incorporation of the additional data called for in 1917, eliminating, however, all reference to topics which have become obsolete and curtailing remarks regarding those which have proved of minor importance.

The work of the Federal reserve banks has been of exceptional importance during the past year, and your report should include a review of the activities of the Federal reserve bank in connection with public financing.

It will be recalled that hitherto the Federal Reserve Agents have used their own judgment as to the opening or introductory material embodied in their reports, thus varying to some extent the character of the matter submitted and destroying the harmony of the reports as related to each other. The Board does not desire to lessen in any way the freedom of action which may be necessary in the preparation of a satisfactory report, but it is suggested that as far as possible a standard outline be followed in order that these reports may admit readily of comparison, one with another.

It is particularly recommended that statistical tables be carried in the appendices except so far as brief tabular presentations may be necessary in the body of the text for illustrative purposes. The method of presenting statistics employed in the report of District No. 1 for the year 1917 is called to your attention as an example. Considerable statistical matter will appear in the appendices to the Board's own report, and as it is desirable that the entire report covering the operations of the Board and the Federal reserve banks be contained in one volume of reasonable size, it is necessary to request the Federal Reserve Agents to keep to their text, avoiding unnecessary verbiage and prolixity. It is suggested that in most cases the reports should not exceed five or six thousand words. Some of the reports submitted last year were several times this length and it was necessary to edit them in order to bring them within reasonable limits.

It is suggested that in preparing your report that you endeavor to give stress to the particular commercial or financial developments which have special application to conditions in your own district. It does not appear to be essential that the reports from the several districts be given a national coloring; that being the scope of the Board's own report, but in each of the districts there will be some outstanding industrial or business developments upon which stress can properly be placed.

Your attention is invited to the general outline, enclosed herewith, which it is suggested be followed as far as practicable in order to secure uniformity in the character of the reports.

An attempt was made last year to have the reports in hand by December 20th, but it was found that this date was too early and that the inclusion of the figures at the end of the year delayed actual progress. The Board has accordingly decided this year that all reports be placed in its possession in completed form by January 8,1919.

Very truly yours,

Federal Reserve Agent,
Federal Reserve Bank,

Governor.

SUGGESTED OUTLINE OF TOPICS AND THE ORDER IN WHICH THEY SHOULD BE TAKEN UP BY THE FEDERAL RESERVE AGENTS IN THEIR ANNUAL REPORTS FOR 1918.

1. Financial results of operation;
   - (a) Earnings, expenses, dividends, etc.
   - (b) Comparative balance sheets for December 31,1917 - 1918.
   - (c) Profit and loss statements for 1918.
2. General Business and Banking Conditions:
   - (a) Volume of business.
   - (b) Labor.
   - (c) Money Market.
3. Discount Operations:
   - (a) Rediscounts - Commercial Paper
   - (b) Rediscounts - Liberty Loan
4. Trade Acceptances
5. Acceptances
   - (a) Growth of open market for acceptances
   - (b) Policy on acceptance purchases
6. Reserve Position
7. Movement of Membership
   - (a) National Bank
   - (b) State Banks
8. Relations with National Bank Members
   - (a) Discount operations
   - (b) Trustee powers
9. Relations with State banks and trust companies:
   - (a) Discount operations
   - (b) Examinations
   - (c) Reserves

10. Fiscal Agency Operations

    (a) For Treasury Department

        1. Allotment of Treasury Certificates among banks in district
        2. Deposits of Treasury funds with banks, and their withdrawal.
        3. Flotation of Liberty Loans
        4. Work in connection with sale of War Savings Certificates.

    (b) War Finance Corporation

    (c) Capital Issues Committee

11. Note Issues.

    (a) Federal Reserve notes

    (b) Federal reserve bank notes

12. Position of commercial banks as a result of war financing:

    (a) Increase of their obligations,

    (b) Effect on commercial paper of district.

    (c) Relation to, and effect on, general business.

13. Policy to be pursued in restoring liquidity of banks:

    (a) Probable time in which they can clear up their "war paper".

    (b) Policy of Federal reserve bank toward them meanwhile.

14. Operations of Federal Reserve Bank branches:

15. Miscellaneous: including:

    (a) Internal organization,

    (b) Clearings,

    (c) Collections

    (d) Gold Settlement Fund

    (e) Foreign accounts

    (f) Banking Quarters - new buildings.

FEDERAL RESERVE BOARD

WASHINGTON

November 13, 1919.
X-1723

Subject: Campaign for State Bank Members.

Dear Sir:-

By direction of the Board, the campaign for bringing State banks into the Federal Reserve System and for strengthening the hold of the System on those State institutions which are already members has been placed under the direction of Mr. H.A. Moehlenpah, Member of the Federal Reserve Board, assisted by Mr. W.W. Hoxton, Executive Secretary.

In order to avoid duplication of efforts and to insure the coordination of activities, you are requested to advise Mr. Moehlenpah as to the plans and organization of your bank for work in this direction, and are further requested to keep him advised from time to time of progress made.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 15, 1919.
X-1725

Subject: Reports of Conferences of Transit Managers and Auditors of Federal Reserve Banks, held in Cleveland, June 23-25, 1919.

Dear Sir:

The reports of the Conferences of Transit Managers and Auditors, held at Cleveland June 23-25, 1919, have been received by the Board and considered, together with recommendations of Federal Reserve Agents and Governors of Federal Reserve Banks approving or disapproving the action taken at the Conferences. The Board has approved the reports of the Conferences and the action therein recommended, and suggests that the recommendations be made effective November 29th, except with regard to the topics discussed below.

For convenience, the topics referred to below are numbered the same as in the Conference Reports.

Topic II "FLOAT"

A. Report of Committee.

(1) Clearing House Exchanges.

(a) Board's letter X-1121.

RECOMMENDATION: It is felt that the recommendation of the Committee at the offices of the Federal Reserve Board on August 7, 1918 as covered in Federal Reserve Board's letter X-1121, requiring that credit be given remitting Federal Reserve Banks on day of receipt by receiving Federal Reserve Banks for Clearing House items, whether or not received in time for the day's clearing, is a step backward in the scientific treatment of "float". Actual "float" cannot be eliminated

> by bookkeeping processes, as the remedy must be found in the correction of time schedules. Where items are received after Clearing House hours, 1 day's "float" results, and the order that credit be given by the receiving bank on the premise that the items will be collected on the same day settlement is made through the Gold Fund with the remitting Federal Reserve Bank, merely transfers the "float" from the remitting Federal Reserve Bank to the receiving Federal Reserve Bank and has no effect on the system as a whole.
>
> It would seem that the solution in this case would be the lengthening of the time schedules to the depositing member banks, thereby placing the "float" where it properly belongs and relieving the system to that extent.
>
> The Committee, therefore, recommends that the provisions of Federal Reserve Board's letter X-1121, August 12th, be rescinded in so far as it applies to the subject hereof, and that the Federal Reserve Banks look to the correction of time schedules affecting them.

The Board is unable to concur with the recommendations of the "Float" Committee that it rescind that part of its letter X-1121 requiring that credit be given remitting Federal Reserve Banks on the day of receipt by receiving Federal Reserve Banks for Clearing House items, and requests that there be no change in the present plan of handling such items. It is the understanding of the Board that where Clearing House items are received from other Federal Reserve Banks after clearing hours, the amount of such items is debited to "Clearing House Exchange" and credited to "Gold Settlement Fund Suspense". This method of handling does not result in the receiving bank's carrying any "float" on account of such items, as clearing house exchanges are permitted as a deduction from total gross deposits, which include Gold Settlement Fund. Suspense account. The Board realizes, of course, that if credit is given to member banks in their reserve accounts for items prior to their collection by the Federal Reserve System, "float" is created, and that the only way to eliminate such "float" is by lengthening the time schedules.

(3) Treasurer's Account.

RECOMMENDATION: The Treasurer's account as a rule has a balance consisting of collected funds more than ample to cover its own float, and it is felt that the gross balances in this account should be held at all times available to the Treasurer for checking purposes. However, in order to avoid the float showing resulting from such treatment, the committee recommends that the account be divided on statement Form 34 to show Treasurer's account collected funds and Treasurer's account uncollected funds; the uncollected funds' account to accurately represent items in transit.

The Board does not deem it desirable to request at the present time that any change be made in the method of handling the account of the United States Treasurer, but concurs with the recommendation of the Committee that information should be available to show, for purposes of analysis, the amount of "float" actually carried by a Federal Reserve Bank for the Treasurer; and accordingly, commencing with November 29, the Board requests that each Federal Reserve Bank show in a short column on form 34 the amount of uncollected items which have been credited to the Treasurer's General Account, and also report to the Board on the daily TEND telegrams the amount of collected funds and uncollected funds credited to the Treasurer's General Account, as follows:

Government A, collected fund balance;
Government B, uncollected fund balance.

(4) National Bank notes, Federal Reserve Bank notes, and Federal Reserve notes.

RECOMMENDATION: As National bank notes and Federal Reserve Bank notes in practice are available for the liquidation of an equivalent amount of member banks' deposits, it is recommended that they be not included in calculating "float".

Federal Reserve notes of other banks are in fact an item of "float" and may be thus shown, although your committee feels that it should be recommended to the Federal Reserve Board that, if Congress should amend the Act so that these notes may be paid out by any Federal Reserve Bank, then this item of "float" should be eliminated from calculations.

The Board realizes that National bank and Federal Reserve bank notes are available for liquidation of an equivalent amount of member banks' deposits, providing they are so-called "fit notes". The Board, however, permits their deduction from deposits on the ground that they are demand obligations of a bank, and as such must be treated as uncollected items so long as they are held at Federal Reserve Banks. Under the present law, therefore, the Board cannot consistently authorize Federal Reserve Banks to treat such notes as deductions from deposits without classing them as uncollected demand obligations of the issuing bank, and if they are uncollected demand obligations of a bank the Board holds that they must be classed as "float".

(6) Board's Table of Ratio of "Float" to Earning Assets and Deposits.

RECOMMENDATION: Your committee feels that the calculation of "float" to total earning assets is conducive to misunderstanding, as the same amount of "float" in dollars would show a different percentage from day to day as the earning assets might go up and down, and would recommend that this column be eliminated from the Board's table.

In this connection, the committee is of the opinion that the last column of the Board's table, ratio of "float" to immediately available Government and bank deposits, is the proper basis for determining the percentage of "float", and also that a recommendation be made to the Federal Reserve Board that such weekly report be based upon the average daily totals for the period.

The column referred to in the discussion of this topic was eliminated from the Board's "float" statement in December 1918.

The Board approves the recommendation that its weekly "float" statement be based upon the average daily totals for the period, and accordingly the new form of report will be effective December 6, 1919.

Topic III TIME SCHEDULES.

A. Report of Committee.

A proposed interdistrict time schedule has been submitted by the Board to all Federal Reserve Banks (Board's letter X-1658).

Topic IV PAR LIST.

F. It is recommended that the Board arrange to omit the phrase, "subject to change without notice", from the published par list and supplement.

In accordance with the recommendation under this topic, commencing with the October first supplement to the Par List, the notation on the front cover of the Federal Reserve Board Par List and monthly supplements, "Subject to change without notice", will be omitted.

K. It is recommended that the par list issued by the Federal Reserve Board contain as a supplement a list of state bank members of the Federal Reserve Districts, listed by states and districts, and that the supplement to the par list contain the changes between the dates of the issuance of the complete par lists.

The Board adopted this suggestion, effective with the July first Par List.

Topic V. CASH LETTERS.

E. Uniform method of deferring country cash letters when a Sunday or holiday intervenes.

It is recommended that the deferred time be by actual business days.

The Board considers that if an item is actually in transit on a Sunday or a holiday, this day should be counted in calculating the deferred time; if, however, the item is due to arrive on a Sunday or holiday at its destination or an intermediate point, the Sunday or holiday cannot be counted as a business day, and one more business day should be added in calculating the deferred time.

Topic VI COLLECTION ITEMS.

G. Direct routing by member banks of one district to other Federal Reserve Banks of collection items.

It is the sentiment of this conference that, if possible, collection facilities should be extended to member banks to enable them to direct-route collection items to Federal Reserve Banks and Branches of other districts.

The Federal Reserve Board has ruled that, under Section 13 of the Federal Reserve Act, a Federal Reserve Bank is authorized to collect maturing notes, bills or drafts payable within its own district when received from its own member banks or from another Federal Reserve Bank, but is not authorized to handle such items when received direct from a member bank located in another Federal Reserve District. The ruling of the Board above referred to is published on page 467 of the Federal Reserve Bulletin for May 1, 1919.

K. Advisability of sending non-cash collection items to member and non-member banks in other districts for remittance when paid to the sending Federal Reserve Bank or the Federal Reserve Bank in the district in which the collecting bank is located.

> It is recommended that any Federal Reserve Bank having collection items payable in any other Federal Reserve District, send those items to the Federal Reserve bank or Branch in the district where the item is payable.

The Board feels that action on this topic should be deferred, and that there be no change in the present method of handling by Federal Reserve Banks of collection items payable in other Federal Reserve Districts.

VII WIRE TRANSFERS.

The Board's letter of July 3, 1919 (X-1607), advises a uniform method of handling wire transfers of funds between Federal Reserve Banks adopted by the Board, effective July 15.

XI. EXCHANGE DRAFTS AND TRANSFER DRAFTS.

> It is recommended that the limit on exchange drafts be removed, and that transfer drafts be abolished.

The Federal Reserve Board disapproves the motion that the limit on exchange drafts be removed and that transfer drafts be abolished, and requests that the procedure of handling exchange and transfer drafts as outlined in the Board's letter of April 12, 1917 (X-92) be adhered to.

AUDITORS' CONFERENCE

Topic II FEDERAL RESERVE BANK ACCOUNTS.

B. Uniform method of adjusting erroneous deductions and credits.

1. When shall errors in deferred cash letters be deducted?

It is recommended that the adjustment be made on the date of discovery.

The Board concurs with this recommendation, providing the date of discovery is the date of availability or a date subsequent thereto.

Topic V FORMS

A. Revision of forms X-794 and X-794-a.

The Board has prepared and forwarded a supply of revised forms X-794 and X794-a, and if necessary these forms will be again revised January 1, 1920.

Very truly yours,

Assistant Secretary.

Letter to all Chairmen of F.R. Banks.

Supplementary list of topics suggested for discussion at the Conference of Governors to be held in Washington, November 19, 1919.

	Suggested by Federal Reserve Bank No.
5. TRANSIT OPERATIONS:	
(h) Discussion by Federal Reserve Bank of New York of desirability of curtailment or elimination of practice of direct routing of items by member banks to Federal Reserve Banks in other districts.	2
(i) Use of immediate credit symbol.	5
13. DESIRABILITY OF AFTERNOON SETTLEMENT THROUGH GOLD SETTLEMENT FUND AT WASHINGTON FOR EASTERN FEDERAL RESERVE BANKS. (Suggested by Federal Reserve Board.)	
14. ABSORPTION OF EXPENSE BY FEDERAL RESERVE BANKS:	
(a) How far can Federal Reserve Banks go in absorbing expense of collecting checks on non-member non-par remitting banks?	6
(b) In view of large earnings of Federal Reserve Banks, would it not be well to furnish postage and pay all express and postage charges for member banks, covering their transactions with Federal Reserve Banks?	6
15 FEDERAL RESERVE BANKS AS FISCAL AGENTS:	
(a) Future activities of Federal Reserve Banks as fiscal agents of the Treasury Department.	11
(b) Payment of interest coupons as fiscal agency function.	11
(c) Liability of Federal Reserve Banks for services performed as fiscal agents.	9
16. CONTROL OF FOREIGN EXCHANGE TRANSACTIONS TO PREVENT DISHONEST BANKING PRACTICES. (Suggested by Treasury Department.)	
17. UNIFORM METHOD OF HANDLING REVENUE TO BE DERIVED FROM SALE OF CANCELLED POSTAGE STAMPS OF LARGE DENOMINATIONS.	2
18. FEDERAL RESERVE TELEGRAPHIC CODE.	11
19. STANDARD FORMS FOR ALL FEDERAL RESERVE BANKS.	11
20. INCREASE OF FEE PAID TO DIRECTORS ATTENDING EXECUTIVE COMMITTEE MEETINGS.	3

C O P Y

November 17, 1919.
X-1727

My dear Senator:

Receipt is acknowledged of your letter of the 14th instant.

The Federal Reserve Act is intended for the benefit of commerce and industry and not for the stimulation of the investment market or of speculative movements. The short title of the Act reads, as follows: "An Act To provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Section 13 of the Act provides in part that Federal Reserve Banks may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes. It provides further that nothing contained in the Act shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; "but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States".

The Board has repeatedly called attention to the fact that resources obtained from the Federal Reserve Banks should not be used for speculative purposes, and at various times when there has been unusual speculative activity it has issued public warnings as to the bad effect of such activities upon the banking situation. The first warning of this kind was issued as long ago as October, 1915, and the warning has been repeated on several occasions since that date when conditions made it necessary.

On June 10, 1919, the Board made public a letter, which it had addressed to all Federal Reserve Agents, reading as follows:

"The Federal Reserve Board is concerned over the existing tendency towards excessive speculation, and while ordinarily this could be corrected by an advance in discount rates at the Federal Reserve Banks, it is not practicable to apply this check at this time because of Government financing. By far the larger part of the invested assets of Federal Reserve Banks consists of paper secured by Government obligations, and the Board is anxious to get some information on which it can form an estimate as to the extent of member bank borrowings on Government collateral made for purposes other than for carrying customers who have purchased Liberty Bonds on account, or other than for purely commercial purposes."

This letter was sent out for the purpose of ascertaining to what extent Government obligations were being used to secure loans from Federal Reserve Banks for other than commercial purposes or for carrying subscriptions.

In its monthly publication, the Federal Reserve Bulletin, the Board has called attention repeatedly since that date to the dangerous speculative tendencies which have been prevalent.

In a printed statement during the summer, the Board made the specific announcement that it would not sanction any policy which would require the Federal Reserve Banks to withhold credits demanded by commerce and industry for the processes of production and distribution in order to enable member banks to furnish cheap money for speculative purposes.

In ordinary circumstances and normal times one check would have been to advance discount rates, but owing to the fact that the Government has sold over twenty-one billion dollars of Liberty Bonds and Victory Notes, many of which securities have been sold to persons who were unable to pay for them in full but were obliged to pay for them in instalments out of savings or accrued incomes, it was felt that an advance in the discount rate on notes secured by Government obligations should, so far as possible, be avoided.

The speculative movement continued; its demands on the banks for credit coming on top of commercial requirements, of the seasonal crop moving demand, and of demands arising out of the unusual congestion of export commodities at ports owing to the delays in transportation. As a consequence of these conditions, the reserves of the Federal Reserve Banks began to decline, and those of the Federal Reserve Bank of New York, in particular, dropped to such an extent that the Board, about two weeks ago, approved an increase in discount rates of that institution averaging about one-half of one per cent. All other Federal Reserve Banks, shortly afterwards, expressed the desire to put into effect a similar advance in their rates, which the Board approved.

The Federal Reserve Bank of New York, on November 2nd, the date on which the advance in its rates was made public, issued the following statement supplementing the repeated warnings of the Board:

> "The reason for the advance in rates announced today by the Federal Reserve Bank of New York is the evidence that some part of the great volume of credit, resulting from both Government and private borrowing, which war finance required, as it is released from time to time from Government needs, is being diverted to speculative employment rather than to reduction of bank loans. As the total volume of the Government's loans is now in course of reduction corresponding reductions in bank loans and deposits should be made in order to insure an orderly return of normal credit conditions."

Notwithstanding this notice, activities on the exchanges continued and the reserves of the Federal Reserve Bank still declined. During the week ending November 8th the Federal Reserve Board sold to other Federal

Reserve Banks ninety million dollars of acceptances for account of the Federal Reserve Bank of New York, but in spite of this action the reserves of the New York bank fell to forty per cent. In these circumstances, in order to prevent further expansion, it became necessary to call the attention of the large rediscounting banks to the situation.

The high rates for call money which have prevailed continuously for the past two weeks and intermittently for several months past, were in themselves very clear indication of the strained position into which the unbridled speculation had thrown the stock market and rendered a readjustment inevitable unless the resources of the Federal Reserve Banks were to be indirectly drawn upon for stock market purposes. The public has had ample notice of the Board's policy.

You are so familiar with the Federal Reserve Act that it is hardly necessary to call your attention to that paragraph of Section 4, which treats of the duties of the board of directors of a Federal Reserve Bank and which provides that "Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provision of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks". This would, of course, afford means for a strict rationing of credits should such an extreme course ever become necessary. It is interesting to note that there no longer exists in the mind of the public or in fact a connection between call money rates and the commercial paper market, and it must be gratifying to all those interested in sound banking methods that the events of the past week have had no effect upon the market for commercial paper.

Very truly yours,

Governor.

Hon. R.L. Owen,
United States Senate.

FEDERAL RESERVE BOARD

WASHINGTON

November 19, 1919.

X-1728

Subject: Member Banks Subject to Provisions of Clayton Act.

Dear Sir:-

At a meeting of the Federal Reserve Board yesterday, I was requested to ask the Federal Reserve Agents to submit a list of member banks in their respective districts which are subject to the provisions of the Clayton Act, for which joint directorships have hitherto been authorized and which may, owing to changed conditions or a change in the character of their business, now be regarded as competing institutions.

The Board desires to have, not later than December 10th, a list of member banks in your district, joint directorships in which might be regarded as of doubtful legality.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

X-1729

C O P Y

1919 NOV 19

MEMPHIS TENN

GOVERNOR W P G HARDING

WASHINGTON D C

NATIONAL FARMERS UNION IN SESSION HERE ASK IF YOU REFERRED TO WITHDRAWAL OF TWO MILLION BALES FROM MARKET OR IF YOU MEAN PRICE HIGH ENOUGH AND REGIONAL BANK MONEY WILL BE WITHHELD IF HIGH PRICE IS SOUGHT TO BE HAD BY FARMERS

T T McELDERRY

FOR COTTON COMMITTEE.

COPY

X-1729-A

TELEGRAM

FEDERAL RESERVE BOARD

Washington

November 19, 1919

T. T. McElderry,
Cotton Committee,
National Farmers Union,
Memphis, Tenn.

Federal Reserve Board does not undertake to fix price of cotton or to express an opinion as to merits of present price, its only concern is to administer the Federal reserve system in sound and businesslike manner, to see that paper rediscounted for member banks is adequately secured, and that Federal reserve banks in extending accommodations shall observe the requirement of the law that the affairs of the Federal reserve banks be administered fairly and impartially and without discrimination in favor of or against any member bank or banks, and that the reserve banks extend to each member bank such advancements, discounts and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks. The Board does not believe that the resources of Federal reserve banks should be used directly or indirectly for speculative purposes or for facilitating the hoarding of commodities for such purposes. Board has consistently maintained that gradual and orderly marketing of crops is proper policy and believes that banks should extend to producers such accommodations as can be safely made to carry this policy into effect, thereby avoiding sales at sacrifice prices which usually result from forcing undue volume of commodities on market at one time

W. P. G. HARDING,
Governor.

FEDERAL RESERVE BOARD

WASHINGTON

November 20, 1919.
X-1730

CONFIDENTIAL

Subject: Cooperation with the Secret Service in matter of Raised Notes and Counterfeits.

Dear Sir:-

The Chief of the Secret Service has informed the Board that he has advised all of his agents in the field that the policy of his bureau is that all counterfeit or raised currency received by a bank from an individual should be turned over to the Secret Service immediately; and all counterfeit or raised currency received by one bank from another bank may be returned to the sending bank for reclamation purposes, but the Secret Service agents should, in such case, be immediately advised of that fact. Under this ruling of the Bureau, it will be possible for a Federal Reserve Bank which receives counterfeit or raised currency to return it to the sending bank for reclamation purposes, provided that the receiving bank immediately notifies the Secret Service Agents.

The Federal Reserve Board feels sure that the Federal Reserve Banks desire to assist the Secret Service in every possible way in its efforts to procure information leading to the arrest of all those engaged in counterfeiting or raising currency.

Very truly yours,

Governor.

Letter to all Chairmen of F.R. Banks.

RELEASED FOR PUBLICATION

X-1732

"THRIFT AND THE FINANCIAL SITUATION"

By

A. C. MILLER,

Member, Federal Reserve Board.

(Prepared for the forthcoming January 1920 number of the Annals of the American Academy of Political and Social Science special volume on Thrift.)

THRIFT AND THE FINANCIAL SITUATION

What is the financial situation of the United States, more particularly, what does our financial situation disclose that makes the practice of thrift and saving a matter of very great national urgency at the present time?

The great outstanding facts in a summary view of our financial situation, which are pertinent to this inquiry, are:

1. The prodigious scale of our public expenditures;
2. The unprecedented weight of our direct tax levies; and,
3. The excessive volume of our governmental borrowing.

Extraordinary expenditures occasioned by the war thus far amount to over thirty billions of dollars with the prospect that the figure will be raised to thirty-five billions by the end of the current fiscal year. Direct tax levies on individual incomes and the earnings of industry are running at the rate of about six billion dollars a year. The money borrowed by the Treasury to finance the public requirements, since the beginning of the war, amounts to twenty-five billions of dollars.

These are stupendous figures. Events and conditions since the armistice are beginning to bring home to many of us for the first time the economic meaning to the nation and to the life of the average citizen of the financial situation thus developed by the war and left after its close.

I.

Expenditures of the magnitude of those incurred by the United States for the war unquestionably mean some considerable impairment of the rate of the nation's capital accumulations during the past two and one-half years. No country is rich enough to stand such a drain upon its economic resources as the United States has been subjected to during this period without suffering an appreciable impairment of its capital account. The extent to which the huge expenditures of the Government have cut into the capital accumulations of the country can not be determined, but common observation and complaint bear evidence that it constitutes a very important item in the economic cost of the war. The circumstance , that during the war the whole thought and energy of the nation was concentrated on the problem of increasing production facilities for the production of war supplies, resulted in less than the normal provision being made for the upkeep and extension of such of the country's industrial equipment as was not primarily needed in war-time however important it might be in peace-time. The run-down condition of the transportation system of the country, particularly the street-car service, and the great shortage of dwelling house accommodations are striking examples coming within the experience of most people of the way in which the war and the insistent and voracious demand it made for first call upon the productive capacity and resources of the country, interrupted the up-keep of many of the productive facilities of the country not clearly essential to the prosecution of the war. There are many other evidences here, there and elsewhere throughout the country, of the fact that the war has left the capital equipment of the nation - that is, buildings, tools, machinery, etc - in many important fields of industry where much must be done to bring it up to a normal state of adequacy and efficiency. More buildings, more machinery, more trackage, etc. etc. must be built. These things are a part of the industrial equipment of the community - they are its capital. On them depends the productivity of American industry and American labor. Impairment in the rate of growth of capital means impairment of our industrial capacity. The productivity of American industry and labor depends, more than can be said of any other community in the world, upon the character and the extent of the industrial equipment with which they are provided. Our rapid industrial progress in the past, it has long been recognized, was largely due to the fact that abundant provision was always made out of the product of industry for its further extension and development and improvement.

Before the war about one-sixth of our productive power, as nearly as can be estimated, was devoted annually to the improvement and extension of the industrial equipment and plant facilities of the country, to the development and exploitation of its natural resources, to the building of roads and houses, and to many other things, which added much every year to the capital resources and productive capabilities of the country. In brief, before the war about one-sixth of the wealth, which we annually produced, was saved and practically all accrued to the nation's industrial- and financial-capital account.

During the war much, if not most, of our customary industrial expansion was suspended, despite the fact that there was a notable increase in the individual savings of the American people. All of the new savings and most of the normal savings during the period of the war were absorbed by the Government and were used directly or indirectly in furtherance of war production. No doubt much of the new industrial equipment called forth by war production will, also, be found useful for peace-time production and, to that extent, be not altogether lost to the capital account of the country. Nevertheless, most of the savings appropriated for public use in the time of our war emergency represents something which, from the point of view of the nation's peace-time economy, must be regarded as unproductive expenditure and economic waste. There is, therefore, a shortage in the capital equipment of the country due to the diversion of the bulk of the country's savings during the war from the production of peace-time facilities to war-time facilities, which must somehow or other be made good if American industry is to maintain its normal productivity. There is but one known economic method by which this result can be accomplished and that is the method of saving.

How is saving related to the all-important matter of restoring and improving and increasing the industrial equipment or capital of the country?

To most people saving is thought of as laying aside money, or as giving up something which has customarily been consumed or which might be consumed. This is, however, merely the first step of the saving process, as a brief illustration will disclose. Perhaps I am on the point of buying an automobile.

'Heeding the injunction to save, I decide to give up my purchase of an automobile, at any rate for the present, and until the present national and world emergency is measurably over. What does my action in foregoing the purchase and use of an automobile do to help industry; specifically, how does it result in an addition to the industrial capital of the country and thus help to make industry more productive? So far as I can trace my action all that I save is the dollars which the automobile would have cost and which the gasoline, tires and other requisites for the operation of the automobile would have cost. What do my saved dollars do to improve the economic situation - to repair or build factories and otherwise expand production facilities? I can see what my saved dollars do to give me dollars against the contingencies of a rainy day sometime in the future by assuring me of something in the bank with which to buy food and clothing, but I have still to be shown how my refraining now, for example from the purchase of an automobile, increases the productivity of industry, makes goods more abundant, and thus helps to bring down prices and improves the financial situation generally.

When you save dollars, Mr. Reader, you save what dollars will buy. In the case in question, your going without an automobile either saves that automobile for some more important use than your pleasure or, what is more likely, supposing that others are doing as you are doing, it saves industry the necessity of devoting as much labor and material and machinery to the production of automobiles as would otherwise be necessary and thus releases that labor and material and machinery for something else, which, in the existing circumstances of the country and the world, is more necessary. In brief, when you save money by cutting down your current consumption, you save more than dollars and you save more than the goods that you go without. You save the labor that it costs to produce those goods and you liberate the labor and productive power thus saved for the production of other things - such as, machinery, buildings and other much needed requisites of production - which it is most urgent the country and the world should have more of at the present time.

III

The need of a great increase in individual savings, in order to provide the requisite capital for expansion of our industries, gets much additional emphasis from the circumstances that a large part of the tax revenues, now being collected by the Government under the new methods and the high levels of taxation which were developed with the war, are undoubtedly eating into the current savings and, therefore, the current capital accumulations of a very important section of the nation's saving class. The tax revenues, which it is estimated will be collected by the Government for the fiscal year 1920, aggregate six and a half billions of dollars. The great bulk of this revenue comes from sur-taxes on the higher grades of income and from excess profits taxes on business. Large incomes and the earnings of business are, also, the source from which has hitherto come a principal, if not the principal, part of the savings of the country and the new capital, which from year to year become available for the use of industry. Receivers of large incomes for the most part do not spend all their income for current consumption but invest a considerable proportion, probably the greatest portion, in industrial undertakings. The stream of saved income that flowed from this source into industry, supplying it with new capital, now flows, to a large extent, into the public treasury, supplying it with the means of meeting its current disbursements. The current expenditures of the Government are not to any appreciable extent to be regarded as economic expenditures. It is only indirectly, as the income of the Government is used in liquidating war contracts, etc. and thus flows back into the channels of business, that any considerable portion of it will be saved and accrue to the capital account of the country.

While it is impossible to estimate the extent to which the diminution in the flow of savings from the incomes of those who bear the main burden of high taxation is thus offset, it does not seem likely to be sufficient to invalidate the proposition that the extremely high direct taxes, which are being levied by the

Government of the United States, are eating into the current capital accumulations of the country to a degree that is considerable. The effects will be serious unless the loss thus arising is made good by increased savings on the part of all those in the community whose ability to save has not been impaired as a result of the financial situation occasioned by war. This means, to put the matter briefly, that the increased savings of the many must make up for the diminished savings of the few, as long as the financial needs of the Government, or other conditions, or considerations of social policy, make it necessary to keep direct taxes at their present high levels.

Questions of direct taxation are commonly regarded only from the points of view of fiscal expediency and distributive justice. In ordinary circumstances these points of view may suffice, but in the present extraordinary circumstances of our country and the whole world, a more fundamental point of view must be taken. With the capital account of all the leading countries of the Western World seriously depleted, as a consequence of the great war, and with the burden of direct taxation reaching a point never before thought possible, the effects of taxation upon the productive economy of the several countries must be given thoughtful study. The war and every experience which has followed since the armistice, has taught us to think in terms of production. A considerable section of the population of Europe - the most highly organized part of the world - is and has been in a state of want with destitution and, in some parts, starvation threatening, because of insufficient production. Production, more production, more efficient production, is an urgent need of the world in the throes of this, the most severe after-war crisis ever experienced.

In these circumstances fiscal and financial questions must be looked at from the point of view of national economic interest, as well as from the point of view of social justice. Looking at the scale of our present direct taxation from the economic point of view, it does not admit of question that the rate of growth of capital in the United States will be seriously affected unless, to repeat the statement, the savings of the many make up for the decrease in the savings of the few. Dependent as the growth of industry and production is upon the stream of capital with which it is fed, saving is the urgent need of the hour. Saving is producing. More of us must make our dollars produce. Things, which are now scarce and dear because production is inadequate, will then become more abundant and prices fall.

III

But saving will do more than this to improve the financial situation. Saving will not only bring down prices by increasing the production and supply of goods but will bring down prices by reducing the supply of money. The most troublesome feature of our financial situation is the high and rising level of prices. Recent events are showing that high and rising prices present more than a financial difficulty. They are the cause of our acute cost of living problem and the industrial unrest and general unsettlement of mind and the financial instability which invariably attend great price disturbances. Reasonable stability of value in the monetary standard is necessary to a good state of mind in a highly organized industrial community. Instability inevitably breeds unrest and unsettlement. Until the upward movement of prices is arrested and the dollar begins to recover its lost value, we may expect to have an unsatisfactory and troublesome financial situation with the evil economic and social consequences, which such a situation invariably entails. To correct the existing financial and price situation is, therefore, tantamount to taking the most important step toward the correction of our current social and industrial unrest. People are everywhere uneasy and apprehensive because of the declining value of the dollar. To restore the dollar to something more nearly approaching its normal value and to reduce prices may, therefore, be said to be the most important financial problem before the country.

That there is no way of handling the problem that does not involve the practice of thrift and saving by all sections and classes of the country upon an intensive scale becomes clear on examination of the financial factors that have helped to bring prices to their present levels.

Speaking in broad terms, changes in prices proceed from changes in the relation of the volume of purchasing media (what, incommon speech, is called money) and the volume of goods offered for sale. When people, generally, have more money in their pockets, or more credit at their banks, with which to buy, than there are goods on the shelves of shop-keepers, which can be bought, goods get dear and money gets cheap. In other words, when there is more money seeking to buy goods than there are goods seeking to buy money, prices rise and their rise will go on as long as the increase in the supply of purchasing media or money proceeds at a faster rate than the increase in the supply of purchasable goods.

That excessive supply of credit and currency has been one of the principal influences in putting up and keeping up prices in the United States is incontestable. That excessive borrowing by the Government has been the main occasion of the excessive increase in the volume of purchasing media seems pretty clear, if, by excessive borrowing be understood, not borrowing in excess of what the Government has required to defray its expenditures, but borrowing in excess of the current savings of the country.

The Treasury of the United States has borrowed, during the past two years and a half, over $25,000,000,000. Of this amount about $21,500,000,000 have been borrowed by the issue of bonds. The remaining three and a half billions have been borrowed by the issue of short-dated certificates of indebtedness. Twenty-five billions in the course of two years and a half is an extraordinary amount of money to raise, even for a country as rich as the United States. It averages about $1,250 for every American family. It is an average of $500 per year for each such family. That such an amount could be taken out of the average income of the American people, except as they greatly reduced consumption and greatly increased savings, needs no demonstration. People of moderate means who did their full duty in subscribing to the loans of the Government by actually cutting down their current expenditures and paying for their bonds in dollars actually saved out of their incomes know from their own experience that there is no method by which such vast loans can be taken up and paid for except by the practice of severe economy. It was because all of the people did not practice economy to the requisite degree that the savings of the country were not adequate to taking up the securities issued by the Treasury as genuine "savings loans". To the extent that the borrowings of the Government were in excess of what were paid for by savings, the loans became "credit loans" and, as such, resulted in a great increase in the volume of the country's circulating credit and its currency.

The following table shows for selected dates, under the heading of "Deposits", the increase which has taken place in the volume of credit extended by the banks (national and state banks and trust companies) and, under the headings "Loans and Discounts" and "Investments", the operations against which the newly created credit was extended. The dates selected are (1) the eve of our entry into the war; (2) the armistice; and (3) the most recent date for which data are available:

Date	'Gross Deposits'	Loans & Discounts	Investments
	(In millions of dollars)		
March, 1917	24,863	17,020	4,955
November 1, 1918	28,862	19,792	8,909
October, 1919	33,159	22,275	9,751

The above figures, which are partly official and partly estimated, show that, between March 1917 and November 1, 1918, 3,999 millions of new banking credit in the shape of so-called deposits were created - an increase of 16.1 per cent. Similar comparison for the item "Loans and Discounts" shows that between the same two dates there was an increase of 2,772 millions - an increase of 16.3 per cent; and, for the item "Investments" for the same dates, there was an increase of 3,954 millions - or 79.8 per cent.

It will be noted that the most striking increase of percentage is found in the item "Investments" between the dates March 1917 and November 1918, when an increase of close to four billions of dollars is shown in the investment holdings of the banks. This was the period when the Government's great bond-issuing operations were at their height: The banks were under pressure to make heavy investments of their credit in subscribing for government loans; they were also extending credit accommodation on liberal terms to their customers for the like purpose. This was also the period when the total currency in circulation was increasing most rapidly - the increase between March 1917 and November 1918 amounting to over one billion and a quarter.

But the expansion of banking credit did not come to a stop with the armistice. Figures given in the table above show that expansion has continued at an alarming rate since then. And the end is not yet assuredly in sight. Between the dates November 1, 1918 and October 1919, 4,297 millions of dollars of new credit have been created; loans have increased 2,483 millions of dollars; and investments 842 millions of dollars.

It thus appears that for the whole period, March 1917 to October 1919, 8,296 millions of dollars of new banking credit have been created, most of which was undoubtedly occasioned by the exigencies of government financing.

It has recently been estimated (Federal Reserve Bulletin for October, 1919, page 942) that the banks of the country hold among their investments over four billions of dollars of government war securities (Liberty bonds, Victory notes or Certificates of Indebtedness) and, among their loans and discounts, two and a half billions or more representing loans made to customers secured by government obligations and made, presumably, for the most part, in aid of customers' subscriptions to government loans. Altogether then, it appears that the banks are carrying, directly or indirectly, between six and seven billions of government war obligations against which has been extended newly created credit in the form of deposits or currency.

This newly created credit, like the new currency, constitutes an addition to the supply of the country's purchasing media. It is for all practical purposes to be regarded as money. It is acceptable as a means of purchase and payment. It acts on prices substantially the same as money. It is the new and large addition to the country's circulating media, resulting from the placement of so large a portion of the Government's loans in the form of "credit loans" - that is, in excess of what the current savings of the people would support - that is largely responsible for that feature of our financial situation which has resulted in the continuing high prices, of which there is so much complaint.

The best way to improve our price situation is to improve our credit situation. Indeed, no great improvement in the price situation need be looked for until the credit situation is materially improved. The banking and credit situation will improve as the large amount of war loan paper and investments now carried by the banks is liquidated. There is only one way to liquidate them and that is out of the proceeds of savings. Those who are debtor to the banks for credit accommodation in aid of subscriptions to government loans must be made to take up their obligations to the banks out of their individual savings, if it is at all possible for them to do so. If they can not do it, or, rather, to the extent that they can not do it, others must in effect do it for them; others must save and out of their savings buy Liberty Bonds in the market. Thus will the market for government bonds be improved and thus will it be made possible for the banks to liquidate by selling in the market bonds, which they have bought on credit, and their customers, the bonds which the banks are holding as collateral. Such liquidation will at once reduce the loan and investment accounts of the banks on the one side and their deposit liabilities on the other; and it will, in addition, bring a return flow of currency to the banks. It is thus that there will result from the process of saving reduction in the volume of purchasing media and decline of prices.

If everyone had done his full duty during the war by voluntarily rationing himself and saving to the requisite degree, most of the expansion of credit and currency and inflation of prices, from which we are suffering, would have been avoided. Because there were financial slackers who did not do their duty, expansion of credit and currency was carried to the point of inflation. The evils of inflation, of which the President warned the nation in his War Message of April 2, 1917, are now upon us in the shape of high cost of living, profiteering, speculation, reckless extravagance and industrial unrest and strife. These evils are to be reckoned as a part of the cost of the war. They are the cost of inflation. That cost must now be met. Until it is met, those evils will remain to plague us. Indeed, there is danger that they will grow worse through postponement or through national self-delusion that they can be escaped. Recent months have given dramatic evidence that the appetite for inflation, like most other appetites, grows by what it feeds upon. Inflation is breeding inflation. A halt must be called. Saving must again become the order of the day. We have too much credit and too much money outstanding in the United States - above all, too much unproductive credit. Its volume must be reduced. There is but one sure method: that is saving.

November 24, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

November 25,1919.
X-1733

Subject: Data Regarding Building Sites and Buildings of Federal Reserve Banks, as of November 29, 1919.

Dear Sir:-

There is attached hereto memorandum with reference to certain information which the Board desires regarding building sites and buildings owned by Federal Reserve Banks and Branches. Please have these data prepared and forwarded to the Board as soon as possible after November 29, 1919.

Very truly yours,

Enclosure.

Assistant Secretary.

Letter to chairmen of all F.R. Banks.

X-1733a

DATA REGARDING BUILDING SITES AND BUILDINGS OWNED BY FEDERAL RESERVE BANKS AND BRANCHES, AS OF NOVEMBER 29,1919.

1.	Original investment (property now owned)......................	$
2.	Actual expenditures on buildings erected or in course of erection.....................................	$
3.	Vaults - cost of construction and repairs.	$
4.	Taxes paid to date	$
5.	Other improvements and miscellaneous expenses	$
6.	TOTAL of Items 1 to 5 inc..................................	$
7.	<u>DEDUCT</u> - Income from buildings	$
8.	NET COST as of November 29,1919.	$
9.	Total amount charged off to November 29, 1919.	$
10.	Book value - November 29, 1919.	$

- - - - -

11.	Area of property (available for building purposes)............	sq.ft.
12.	Cost per sq. ft. on Item 1 - "Original Investment"............	$
13.	Cost per sq. ft. on Item 8 - "Net Cost"......................	$
14.	Total estimated cost of new building under construction or planned, if any.	$

15. Please furnish diagram of any property purchased since March 15, 1919, (date of former inquiry on this subject) showing size in feet, names of streets bordering, compass directions, etc.

NOTE: Give data separately for branches owning property, so far as this is possible.

FEDERAL RESERVE BOARD

WASHINGTON

November 26,1919.
X-1734

CONFIDENTIAL

Subject: Location of Branch Bank in Oklahoma.

To the Member Bank addressed,
Tenth Federal Reserve District,
State of Oklahoma.

Gentlemen:-

The Federal Reserve Board has under consideration the establishment of a branch of the Federal Reserve Bank of Kansas City at either OKLAHOMA CITY or TULSA.

In order that this branch may be located with a view to the interests of the territory to be served, the Board desires from you an unbiased statement indicating your preference as between the two cities named. Please disregard all previous communications which you may have received upon this subject from any source.

No decision will be reached by the Board until an opinion has been received from the member banks in that part of Oklahoma lying within the Tenth Federal Reserve District, exclusive of Oklahoma City and Tulsa. You are therefore requested, at the earliest possible moment, to indicate your preference by filling out the attached form and mailing it to the undersigned. Kindly have the form signed by an executive officer of your Bank - preferably a senior executive officer - and accept the assurance that the expression of your preference will be held as strictly confidential.

Very truly yours,

Enclosure.

Executive Secretary.

To all member banks in Oklahoma except Oklahoma City and Tulsa.

X-1734a

Date___________________

Mr. W.W. Hoxton, Executive Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Sir:-

You are authorized to report to the Federal Reserve Board that, in the opinion of the undersigned member bank, the Oklahoma branch of the Federal Reserve Bank of Kansas City should be located at ______________________________.

It is understood that this expression of opinion is to be regarded as confidential.

Name of Bank______________________

Name of Officer____________________

Title of Officer____________________

Town_____________________________

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1919.
X-1735

Subject: Certified Copies of Amendments to Articles of Incorporation or Charter of Member State Banks.

Dear Sir:-

In order that the Federal Reserve Board may be advised and its records kept complete, it is requested that you obtain and forward certified copies of all current amendments to the articles of incorporation or charter of any member State institution.

Very truly yours,

Assistant Secretary.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 29,1919.
X-1736

Subject: Exhibits N and O, 1919 Annual Report.

Dear Sir:-

There are enclosed herewith extracts from the Board's Annual Report for 1918, showing those parts of Exhibits N and O (" Salaries of Officers and Employees" and "Officers and Directors of Federal Reserve Banks", respectively) which relate to your Bank. It is requested that you add to these tables data for the year 1919, up to and including December 31, and forward the revised tables to the Board as soon as possible.

Any changes affecting these reports which may occur at your bank after the reports have been forwarded should be sent to the Board promptly, so that the necessary changes may be made in the proof.

Very truly yours,

Enclosure.

Assistant Secretary.

To Chairmen of all F.R. Banks.

STATEMENT FOR THE PRESS X-1737

For Release in Morning Papers,
Monday, December 1, 1919.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of November, as contained in the forthcoming issue of the Federal Reserve Bulletin:

The reports on business and financial conditions for the several Federal Reserve districts continue to emphasize the prevalence of an unabated business activity due to persistent demand for goods at all stages of production. The eagerness and sustained buying capacity of the ultimate consumer appear to be the explanation of a continued expansion of wholesale and retail trade, which is to be found even in those districts most immediately affected by the coal and the steel strikes. Curtailment of industrial operations because of the coal shortage had been only sporadically enforced up to the middle of the month, but the imminency of drastic action looking toward the conservation of vanishing coal supplies was already apparent at that date, the shortage being especially acute in the Kansas City and St. Louis districts.

Notwithstanding the demoralizing effects upon general business that might have been expected to accompany any widespread industrial disturbance in the basic industries of the country, there was virtually unanimous testimony concerning the increase in the volume of wholesale and retail trade in terms of price measurement. In several districts emphasis is placed upon the increase in physical volume of sales, district No. 1, for example, reporting that the general retail trade shows "increasing business over last year, not only in amount as measured in terms of money receipts, but in volume". In district No. 2, inquiries covering over 40 establishments engaged in various branches of retail trade indicated percentage increases in sales values ranging from 48 per cent in jewelry to 141 per cent in clothing, while the percentage increases in number of units sold varied from 38 per cent in furniture to 48 per cent in furs. District No. 3 also testifies that the volume of retail sales for the first part of November was quantitatively greater than for the corresponding periods last year and last month. In district No. 8 alone the retail trade in the rural districts had felt the effect of bad weather, which had also influenced unfavorably the sales of wholesale dry goods in certain sections. Orders placed with wholesale boot and shoe concerns, however, were improving and even exceptionally heavy in some cases.

The rapid turnover in wholesale and retail trade is evidently outstripping increases in current production, as evidenced by depleted or exhausted dealers' stocks and by the often repeated complaints of manufacturers, who allege scarcity of labor and of raw materials. Widespread disaffection on the part of all classes of workers is asserted to be a further cause of diminished output. There is, possibly, a tendency to exaggerate the magnitude of buying operations, by thinking of purchases and sales in terms of pre-war prices, instead of considering them in relation to money incomes on the new price basis. Nevertheless, in view of the ephemeral character of the industrial situation in the present transition period, more conservative buying might have been expected. But there are not as yet many indications of a desire to resort to the practice of that economy which has been urged upon the country for so many months.

Paralleling the trade activities just outlined, a growing volume of speculation has developed. In the review of business and financial conditions during October it was pointed out that speculative activity throughout the country was reaching dangerous levels. This activity continued unabated until early in November the Federal Reserve Banks advanced discount rates. The advance was slight but accompanied, as it was, by an announced discount policy, it was efficacious in causing a reduction of loans.

Reports from the agricultural sections of the country indicate a considerable amount of crop damage due to excessive rains and insect pests. District No. 6 states that the cotton crop is the shortest on record in that territory as a result of the activities of the boll weevil, while the Texas cotton crop, although it promises to be the largest from the point of view of money value, is 15 per cent below the 10 year average of condition because of bad weather. The quality of Oklahoma cotton has been damaged by rains which have also interfer ed with cotton picking in district No. 8. For the same reason, the sowing of winter wheat was delayed in districts No. 8 and 11, the acreage being reduced in consequence. A large area has been put in winter wheat in district No. 10 and a good stand is reported. Sowing was in progress in the Pacific Northwest, the probabilities being that the acreage would largely exceed that of 1918. The corn crop, although rain-damaged in certain localities will, it is estimated, prove to be larger than that of 1918 except in districts No. 5 and 6. Pennsylvania reports the largest corn crop in the history of the state.

District No. 1 reports that the tobacco grown in the Connecticut valley region will exceed the output for 1918. The Kentucky and Tennessee yield, as reported from district No. 8, also shows an increase not only over the preceding year but in excess of the 10 year average. The crop grown in district No. 4, however, is estimated to be from one-quarter to one-third short, and the yield in district No. 5 will probably be about 60% of normal. Bright tobacco is bringing 40 to 70¢ per pound and the export demand is very insistent. The quality of the crop in Pennsylvania is poor and production below the ten year average, as the result of adverse weather conditions. With the year ending October 31, district No. 12 reports that California has rounded out "the largest citrus and deciduous fruit season" in the history of the state. Florida citrus fruits are not maturing as well as they should and the market is said to be poor.

The grain movement has been slow, the Minneapolis district reporting that the farmers are holding their grain for higher prices, while district No. 10 reports that corn and oats are being held back for similar reasons. Until the middle of the month, wheat prices in Kansas City showed continued strength; oats remained practically unchanged, and corn advanced after a price recession.

Receipts of wheat at 16 interior markets during October were 50,774,164 bushels, as compared with 65,178,605 bushels during October 1918. Receipts of corn and oats show a marked falling off from the totals for the same month last year, being 12,364,107 bushels and 24,041,974 bushels, respectively, against 23,297,650 bushels and 31,567,793 bushels. Wheat flour production in October amounted to 15,008,000 barrels, as compared with 14,087,000 barrels in October.

Receipts of cattle at 15 primary markets during October were somewhat in excess of the total for the same month last year, the respective figures being 2,317,487 head and 2,267,934 head, corresponding to index numbers of 230 and 225, while receipts during September, 1919, were 1,871,042, corresponding to an index number of 186. Receipts of hogs declined markedly, being 2,160,079 head in October, 1919, corresponding to an index number of 98, as compared with 2,570,525 head during

October, 1918, corresponding to an index number of 123. Receipts during September, 1919, amounted to 1,704,944, the index number being 78 Receipts of cattle at the six principal markets of the Kansas City district were 5 per cent larger during October than in the same month of the preceding year, but the totals for the 10 month period were 8.5 per cent below the figures for the corresponding months of the preceding year. The decrease is "attributed in part to the large transfer of cattle from the dry regions of the Northwest to the South, where a plentiful supply of feed abounds.' The car shortage and a disposition to hold cattle on feed for higher prices are also considered as factors in the reduction of supplies of cattle on the markets." There was a sharp falling off in receipts of hogs at the markets of the Kansas City district, 31 per cent below the figures for October a year ago. It is said that while this is taken as a sign that there are fewer hogs now in this country than last year, it is also contended that many hogs are being held back for fattening as there is more corn in the country than at this time last year. Sheep receipts fell off in October 5.5 per cent from the monthly record of a year ago, while marketing of horses and mules was 17 per cent heavier. Receipts of cattle during October in the principal markets of the Chicago district also show a 6 per cent increase; although for the fall ten months the 1919 receipts decreased 7 per cent as compared with the corresponding period of the preceding year.

Average prices of beef and mutton in the Chicago market for October show a decline from the prices of October, 1918. Kansas City states that cattle prices advanced slightly in October, but that there was a sharp drop in the market for hogs.

Lumber stocks are exceptionally light, being reported as 75 per cent of normal in districts No. 6 and 11 and about 70 per cent of normal in district No. 12. Production in district No. 6 is not over 60 per cent of normal for the season, the prime causes being labor shortage and bad weather, although there has also been a slight let-up in volume of orders received. On the other hand, district No. 12, reports a steady increase in orders at a time when a normal seasonal decline might have been expected.

In general, building activity has been unprecedented for this time of the year. Where a falling off in construction activities is indicated by a drop in building permits, the movement is not as pronounced as usual at this season and several districts report increases in permits during October over the preceding month.

According to district No. 6, "Florida reports indicate that the weather has been favorable for naval stores products, and receipts have been proportionately larger than for previous months. Notwithstanding the heavier receipts, the market has kept up well and prices continue excellent. Export demand is increasing and there is a large domestic demand for both rosin and turpentine."

Production of bituminous coal during October was 54,579,000 tons as compared with 47,403,000 tons during September, the respective index numbers being 147 and 128. The high record for production during the week ending October 11 was surpassed by the output figures for the week ending October 25, which were 2,000,000 tons in excess of the earlier figures, the speed up being due to preparations for the impending coal strike. Anthracite coal shipments during the month of September were 6,560,150 tons, corresponding to an index number of 117 as compared with 5,687,401 tons during September, corresponding to an index number of 101.

The output of beehive coke decreased from 1,790,466 tons during September to 1,551,980 tons in October.

District No. 3 reports that the Central Pennsylvania coal fields are tied up very completely. District No. 4 says that the Connellsville region has not been affected by the coal strike. "Last year this region produced for its record weekly output and for its own coking operations 500,000 tons, besides shipping several hundred thousand tons. Recently the region produced 300,000 for its own coking beside a much larger tonnage to outside consumption." District No. 9 reports sufficient coal supplies at the docks to care for the needs of the interior.

District No. 12 reports a decrease both in the daily output and in stored stocks of petroleum. District No. 10, on the other hand, announces a new high record for production from the wells of Kansas and Oklahoma in the mid-continent field. Wyoming has surpassed Pennsylvania as an oil producing state and now ranks seventh.

Labor conditions in the zinc and lead mining districts are reported to be improving, although cessation of operations was threatened by the coal strike. Transportation difficulties have been severe, shippers utilizing broken cars after making local repairs, while empty coal cars, trucks, and teams have been used for hauling lead in order to release cars for zinc transport. There have been only slight advances in the price of zinc ores. No surplus stocks have been moved. Lead prices have advanced, however, and surplus stocks have been used up.

Copper is selling at a price not much above the average cost of production, while silver has touched new record high prices, the quotation being $1.36¾ per ounce on November 24.

Except in cases of enforced idleness due to industrial disturbances, the chief lines of manufacture continue to exhibit the marked activity characteristic of the preceding months, rising prices of raw materials not operating to relieve the pressure of buying orders, although here and there counseling caution in the accumulation of producers' stocks. District No. 1 reports the market for raw wool more active than a month ago, finer grades being in especially great demand with prices fully 5 per cent higher, while medium grades are lower and coarse wools nearly 50 per cent below the maximum prices obtaining during the war. Corroborative testimony comes from District No. 4 to the effect that the finer grades of wool are held for exceedingly high prices, while medium low grades are fairly plentiful. There appears to be uncertainty regarding the probability of a shift of demand from the higher to the medium grades. The percentage of woolen machinery in operation in the New England mills has never been greater at this time of the year.

As for the New England cotton mills, those manufacturing gray goods are reported to have had a phenomenal business which has resulted in many contracting for their entire output for several additional months. The scarcity and abnormally high prices of the finer qualities of cotton have led to the buying of more Egyptian and Peruvian cotton by the fine goods mills. Present indications are for higher prices of the finished product six months hence. It is significant that District No. 5 mentions increasing sales of machinery to cotton mills, large profits having induced expansion.

The most recent available news concerning cotton yarns is to the effect that trading has become slack, the principal demand now coming from knitters. Prices remain stationary at achieved high levels.

Summarizing the prevalent conditions in the hide and leather using industries, it appears that stocks of the coarser grades of hides are accumulating somewhat. The demand for calf skins and finer grades of leather is unappeasable, however. In the boot and shoe industry, heavy orders indicate sustained demand at present or even higher prices

Up to the middle of the month the coal strike was not yet proving a factor to be reckoned with in the production of iron and steel, either in the Philadelphia or the Cleveland Districts, while the Birmingham region reported business to be very active. This does not mean that the mills in District No. 3 and District No. 4, were, as a whole, operating any where near capacity, the Cleveland report stating that the production of steel during October averaged about 60 per cent of the rate immediately before the steel strike, while at the time of writing it had risen to 70 per cent of that amount. The steel mills in the Chicago District were gradually increasing the scale of their operations, but excessively short coal supplies were causing apprehension.

The leading interests are inclined to resist the pressure to increase the schedule of prices for steel products, but material for quick shipment is commanding even higher premiums. Crude and semi-finished materials show a pronounced price rise, while it is reported from Cleveland that the prices of semi-finished steel, pig iron, and scrap are all several dollars higher than a month ago.

Pig iron production, as was to be expected, declined sharply in October, from an output of 2,487,965 tons for September to 1,863,558 for October, the index number dropping from 107 to 80. Unfilled orders of the United States Steel Corporation increased from 6,284,638 tons at the end of September to 6,472,668 tons at the end of October, the respective index numbers being 119 and 123.

Wherever conditions of employment are referred to, evidence is adduced to show shortage of supply. A temporary surplus in District No. 12 due to the release of large numbers of workers in the shipyards was being rapidly absorbed. The Boston employment office reports employers' demands to be 18 per cent heavier than at the same time last year. Numbers employed in New York State during October according to the Industrial Commission fell about 2 per cent, as a result of strikes, although numbers of employees in strike free localities showed a slight increase. District No. 3 is suffering from a scanty supply of both skilled and unskilled labor; there is a shortage of farm labor in District No. 6, and District No. 8 mentions especially the lack of skilled labor.

In view of the disturbances to production occasioned by strikes, with no counterbalancing diminution of buying pressure, it is not surprising to note a slight increase in prices for October. The index number of wholesale prices of the Bureau of Labor Statistics increased from 221 in September to 223 in October. A new high level for raw materials was reached, the index number rising from 216 in September to 220. Among the subgroups included in the group of raw materials forest products achieved a record figure of 234, surpassing the previous September record of 227. The index for farm products registered 253 against 240 for September. The animal products group alone declined slightly from 215 to 212. Consumers goods rose from 226 to 228 and producers' goods decreased from 212 to 211.

The sudden drop in the prices of commodities and securities that had been the focus of a sustained speculative interest followed the advance in discount rates announced on November 3 by the Federal Reserve Bank of New York. Call loan rates rose rapidly to a spectacular climax on November 12 when a quotation of 30 per cent was reached -- a figure not attained since the panic of 1907. Heavy liquidation of stock shares with sales exceeding 2½ million shares on the same day caused a violent drop in the inflated prices of many securities traded in. The New York cotton market also felt the effect of the monetary stringency and prices receded hastily.

The deterrent effect upon speculation of high call loan rates has been somewhat offset by the action of outside banks in increasing their loans on call in the New York market, thereby to a certain extent counterbalancing the results obtained by local contraction. District No. 4, for example, reported that despite abnormally heavy demands both from the country districts and from industrial centers following the effects of the steel strike, the local stringency had been increased by disposition to lend funds on call. At a time when high call loan rates in the money centers coincide with the existence of surplus funds in sections where crops have been harvested and local demands are smaller the transfer of funds to money centers may not only be a serious hindrance to the effective curbing of speculation, but may go forward at a time when other districts are in need of funds for agricultural or commercial purposes.

The New York market for commercial paper is reported to be dull, with rates latterly on a $5\frac{1}{2}$ per cent to $5\frac{3}{4}$ per cent basis, dealers finding their best market among the interior banks. Bank clearings everywhere have been exceptionally heavy. The Board's figures of volume of check transactions continue to show expansion.

The issue of new securities by domestic corporations during October is reported by District No. 2 to amount to about $390,000,000, being in excess of the September figures. A very large number of preferred shares were put out. It is not surprising, in view of prevailing high interest rates and the uncertainty as to the length of time that may elapse before the investment rate falls, to find preferred shares to a certain extent taking the place of long time bond issues.

During the month sterling exchange, francs, marks, and lire fell to new low levels, marks selling at 2.05 cents on November 18; sterling at $3.99\frac{1}{2}$ and francs at 9.80 on November 20. Lire were quoted at 12.60 on November 12. Since then there have been slight recoveries, but no improvement in the foreign credit situation to warrant any substantial or permanent rise in quotations.

FEDERAL RESERVE BOARD

WASHINGTON

November 29,1919.
X-1738

Subject: Balances of Non-Member Clearing Banks.

Dear Sir:-

Some question has been raised as to the method of computing the amount and character of the balances to be maintained with their respective Federal Reserve Banks by non-member clearing banks, that is, banks which have made deposits with the Federal Reserve Banks for the purpose of exchange or collection under the provisions of Section 13 of the Federal Reserve Act.

On pages 617 and 618 of the August 1917 Bulletin there is published an opinion of counsel to the effect that the purpose of the proviso in the so-called Hardwick amendment to Section 13 is to afford protection to the Federal Reserve Banks against any possible loss resulting from clearing transactions with non-member banks and that the Federal Reserve Banks are therefore authorized to require and should require a clearing non-member bank to maintain a balance sufficient in the judgment of the officers of the Federal Reserve Bank to offset checks or other items drawn <u>against</u> the depositing bank and presented by the Federal Reserve Bank for payment as well as items received <u>from</u> the depositing bank.

There is quoted below for your information a letter addressed to one of the Federal Reserve Banks under date of October 29, 1919, which is not intended in any way to amend the opinion above referred to but which is merely for the purpose of defining, first, the <u>amount</u> that is necessary to constitute an "offset" for checks deposited by a non-member bank with the Federal Reserve Bank and still in the process of collection, and second, the <u>character</u> of the "balance sufficient" to make the offset.

> "Dear Sir:-
>
> "I have received your letter of October 21st, suggesting some modifications of the Board's attitude upon that portion of Section 13 of the Federal Reserve Act which refers to the clearing accounts of non-member banks.
>
> "The language of Section 13, which is repeated in Regulation J, provides, in connection with the establishment of clearing accounts by non-member banks and trust companies that, 'such non-member bank or trust company maintain with the Federal Reserve Bank of its

district a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.'

"Before discussing whether a 'balance' means a book balance or a collected balance, it would be well to throw some light upon the meaning of the word 'offset'. In cases where a non-member bank collects items through a Federal Reserve Bank and receives deferred credit only after the items have actually been collected, it is clear that no balance whatever is necessary to offset items in transit held for account of the non-member bank by the Federal Reserve Bank. The Board's construction of the word 'offset', therefore, is that it must apply to the labor performed and the expense incurred by the Federal Reserve Bank in collecting the items for the non-member bank. It seems, therefore, in determining what balance will be sufficient to offset items in transit held for account of a non-member bank by the Federal Reserve Bank where credit is not given until the items are actually collected consideration should be given to the average volume of collections made by the Federal Reserve Bank for the non-member bank and the proportion borne by such business to the total collection business of the Federal Reserve Bank. It will be found in many cases that the value of a small actual balance will be sufficient to compensate the Federal Reserve Bank for its work in handling collections for a non-member bank and that the amount of balance required will be less than the average daily volume of collections received from the non-member bank.

"While the Board has made no formal ruling covering its interpretation of the words 'a balance sufficient' it has, nevertheless, construed these words to mean a collected balance. If a non-member bank should be permitted to maintain only an uncollected balance against its items in process of collection by the Federal Reserve Bank, it is likely that the Federal Reserve Bank would be left most of the time with only an uncollected balance on its books, representing no actual funds available to the end of compensating itself for the work and expense involved. No commercial bank, having regard for good banking practice, would tolerate such a situation. If the privilege you suggest were accorded to member banks, the Federal Reserve System might at times have no usable funds, and the granting of it to clearing non-member banks would make it to the interest of a state bank to become a clearing non-member rather than a regular member. Such a bank could, in various ways, do its borrowing through its correspondents, and at the same time use the collection facilities of the Federal Reserve System without contributing one penny to the upkeep of that System.

"This problem would appear to solve itself, if the bank commissioners of the various states, in designating the Federal Reserve Bank as a reserve agent for state banks, should stipulate (as they probably will and as I think they should), that the required reserve must be carried in collected funds as in the case of national banks.

"The opening of clearing accounts by non-member banks will undoubtedly accrue to the advantage of the Federal Reserve System, and will materially add to the service it renders. Success in attracting such accounts will, as you state, facilitate the acquisition of par points, and such acquisition of par points will encourage member banks to send all miscellaneous items direct to the Federal Reserve Banks and branches, with the idea of checking against excess reserves in favor of correspondents with whom interest-bearing balances are desired. In addition, the opening of clearing accounts by non-member banks will also very likely give impetus to the proper routing of items, because these banks, if the volume of their business justifies, can be authorized to send items direct to the Federal Reserve Banks and branches for the credit of their city correspondent. It seems to me, however, that the Board should continue for the present, to construe the words 'balance sufficient' to mean a collected balance.

"Your information as to the action which will be taken by the state bank commissioners in your district is very interesting. It would be excellent if these commissioners, in designating the Federal Reserve Bank as a reserve agent for state banks, could be prevailed upon to make the conditions and requirements covering such reserve balances uniform. I shall be pleased to have you keep me posted on this phase of the situation as it develops."

As indicated above where a non-member bank clears items through a Federal Reserve Bank and receives a credit only after the items have been collected, it is evident that no balance whatever is necessary to offset items in transit in order to protect the Federal Reserve Bank against any possible loss resulting from the transaction. The Board has ruled therefore that in such a case the reserve bank might require the non-member bank to maintain a balance sufficient to offset the expense incurred by the Federal Reserve Bank in making the collections. It should be noted, however, that this should not in any way interfere with the calculation of the amount of deposit which must be maintained in accordance with the opinion published in the Bulletin in order to protect the Federal Reserve Bank against any possible loss in the case of items drawn against the non-member bank which are being collected through the Federal Reserve Bank.

Very truly yours,

Governor.

To Governors and Chairmen of all F.R. Banks.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

December 2,1919.
X-1739

Subject: List of Officers and Employees of Federal Reserve Banks as of January 1, 1920.

Dear Sir:-

With reference to the Federal Reserve Board's letter of September 11, 1918, X-1189, on the subject of salaries of officers and employees of Federal Reserve Banks as of January 1st and July 1st of each year, it is suggested that, in order to secure uniformity in submitting this data for January 1, 1920, the following form be followed:

Department

Date of Employment	Name	Position	Present Annual Salary	Proposed Increase	Proposed Annual Salary

This list should show all employees of each department, including the War Savings Organization and the Fiscal Agency Department, and employees not assigned to any particular department. In those cases where salaries are reimbursable, either in whole or in part, by the Treasury Department, it is requested that note be made to this effect.

Also, please show on a separate sheet a recapitulation by departments, giving the following information:

Department	Number of Employees	Total Annual Salaries	Total Proposed Increases	Total Proposed Annual Salaries

This recapitulation should be footed and show grand totals.

As requested in the Board's letter of September 11, 1918, the Board desires detailed information on all increases in salary amounting to $300 or more per annum; also prompt advice of the appointment of any new employee at a salary of $2,400 or more per annum, with a statement describing the duties to be performed, the qualifications of the employee, and the proposed salary. It is also requested that prompt notice be given to the Board of the resignation of any officer or employee whose salary is $2,400 or more per annum.

In addition to the foregoing information the Board desires that you submit a memorandum with your report for January 1st covering the duties assigned to each officer of the bank and the departments which are operated under his general supervision or immediate direction; also a description of the duties of employees receiving salaries of $3,000 or more per annum, who are engaged in special work for the bank but who are not assigned to any particular department, stating the rate of compensation, and whether or not the employee devotes his entire time to the work of the Reserve Bank.

The Board desires further that the memorandum include a brief description covering the scope of the work of each department, its subdivisions, the name of the officer or employee in charge of each department or subdivision, the names of his principal assistants, and the name of the officer of the bank who has general supervision of the operation of the department. To secure uniformity, it is suggested that this information be furnished in accordance with the attached form.

Very truly yours,

Enclosure.

Governor.

Letter to Chairman of all F.R. Banks.

X-1561a

DEPARTMENT: Discount Department

SCOPE: General, but brief description of the work of the department.

GENERAL SUPERVISION:

____
Deputy Governor.

IMMEDIATE SUPERVISION:

____
Assistant Cashier.

MANAGER:

____

ASSISTANT MANAGER:

____

DIVISIONS:	In Charge	Assistant
Loans to member banks, unsecured		
Loans to member banks, Government collateral		
Member bank promissory notes		
Acceptances purchased		
Rediscounts with or for other Federal Reserve Banks		
Custody of collateral		
Records		

FEDERAL RESERVE BOARD

WASHINGTON

December 3, 1919.
X-1740

Subject: Campaign for New Par Points.

Dear Sir:-

There is enclosed herewith a copy of report prepared from replies received from all Federal Reserve Banks in response to our telegram of November 28th, asking for information regarding the progress of the campaign being conducted for the establishment of new par points.

In addition there is also enclosed a special report showing non-member banks not on par list distributed by States according to Federal Reserve Districts.

Very truly yours,

2-Incl.

Assistant Secretary.

To Chairmen of all F.R. Banks.

CAMPAIGN FOR NEW PAR POINTS. X-1740 a

Reports of Federal Reserve Banks November 30, 1919

Federal Reserve Bank	National Banks in District	State Bank Members	Total Member Banks	Non-Member Banks on Par List	Ratio of Non-member Banks on Par List to total Non-member banks in district	Number of banks added to Par List during November 1919	Number of banks added to Par List since Jan 1, 1919	Number of Non-member Banks not on Par List	Total number of non-member banks in district
					%				
Boston	394	36	430	243	100	--	--	--	243
New York	635	118	753	320	100	--	--	--	320
Philadelphia	638	38	676	411	100	--	93	--	411
Cleveland	748	93	841	1,070	98.6	18	404	16	1,086
Richmond	537	46	583	450	30.6	5	176	1,021	1,471
Atlanta	365	63	428	349	22.0	--	99	1,241	1,590
Chicago	1,047	321	1,368	3,704	88.4	180	1,342	488	4,192
St.Louis	468	66	534	2,203	82.7	240	1,203	461	2,664
Minneapolis	832	85	917	1,494	51.8	3	325	1,392	2,886
Kansas City	986	44	1,030	3,145	94.4	107	964	186	3,331
Dallas	640	118	758	1,037	84.4	135	798	191	1,228
SanFrancisco	577	120	697	945	88.8	12	18	119	1.064
Total	7,867	1,148	9,015	15,371	75.0	700	5,422	5,115	20,486

NON-MEMBER BANKS NOT ON PAR LIST NOVEMBER 30,1919,
DISTRIBUTED ACCORDING TO STATES AND FEDERAL RESERVE DISTRICTS X-1740 b

	Kentucky	Va.	West Va.	N.C.	S.C.	Ala.	Fla.	Ga.	La.	Miss.	Mich.	Wis.	Ark.
Boston													
New York													
Philadelphia													
Cleveland	16												
Richmond		211	84	418	308								
Atlanta						202	140	510	103	102			
Chicago											199	289	
St.Louis	102									153			206
Minneapolis											15	141	
Kansas City													
Dallas													
San Francisco													
Total	118	211	84	418	308	202	140	510	103	255	214	430	206

	Tenn.	Minn	Mont.	N.D.	S.D.	Nebr	Ariz	Texas	Oreg	Wash	TOTAL
Boston											--
New York											--
Philadelphia											--
Cleveland											16
Richmond											1,021
Atlanta	184										1,241
Chicago											488
St.Louis											461
Minneapolis		576	44	306	310						1,392
Kansas City						186					186
Dallas								191			191
SanFrancisco							15		60	44	119
Total	184	576	44	306	310	186	15	191	60	44	5,115

FEDERAL RESERVE BOARD

WASHINGTON

December 3, 1919.
X-1741

Subject: Treatment of Extraordinary Charges against Earnings of Federal Reserve Banks at the closing of books December 31, 1919.

Dear Sir:-

With the view of maintaining uniformity of practice, the Federal Reserve Board has approved the following rules to be adopted by the Federal Reserve Banks for the treatment of depreciation and extraordinary charges against net earnings and profit and loss at the closing of books Dec. 31, 1919:

1. Cost of Federal Reserve and Federal Reserve Bank Notes.

   Balance of account, as shown by books on Dec. 31, to be charged to current expense account.

2. Furniture and Equipment.

   Balance of account, as shown by books on Dec. 31, to be charged to current expense account.

3. Cost of Vaults.

   All expenditures made during the year 1919 for vaults and vault equipment to be charged to current expense account.

4. Alterations and Improvements.

   Charge against current expense account all expenditures made during the year 1919 in repairing, altering or remodeling bank premises.

5. Bank Premises.

   (a) Where properties have been purchased with the intention of erecting new bank buildings banks will be permitted to charge against profit and loss account an amount sufficient to cover the estimated value of buildings which will have to be razed, such estimated valuation of buildings to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

(b) Where properties have been remodeled and are now used as permanent banking quarters by a Reserve bank, a reasonable depreciation charge will be permitted but in no case shall it exceed 10 per cent of the estimated value of buildings on Dec. 31, 1919.

(c) Where a Reserve bank has purchased or may purchase a site for a new building it will be permitted to charge down the book value of premises now owned and occupied to a fair selling price, such price to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

6. Apparent Depreciation on Government Securities

Full provision should be made for apparent depreciation (based on market value) on government securities before any amount is transferred to surplus account. No change should be made in book value of securities but depreciation allowance should be charged to profit and loss account and carried to account - Depreciation reserve on U.S. bonds. Adjustments should be figured on the basis of December 30, 1919, market quotations which will be telegraphed to you from Washington on the morning of December 31,1919.

7. Surplus and Franchise Tax.

After all current expenses, extraordinary charge-offs, and dividend payments have been provided for, the balances remaining in the profit and loss account should be distributed as follows:

1. Transfer to surplus account all net profits until such surplus account is equal to 100 per cent of the bank's subscribed capital.

2. Of the balance, if any, remaining in the profit and loss account, 10 per cent should be transferred to surplus account and 90 per cent paid to the Government as a franchise tax.

Kindly acknowledge receipt.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

X-1742

RELEASED FOR PUBLICATION
AFTERNOON PAPERS DECEMBER 10th, 1919.

A N A D D R E S S

by

HENRY A. MOEHLENPAH,

Member, Federal Reserve Board.

Delivered at the Convention

of the

Oklahoma State Bankers Association,

Oklahoma City, Oklahoma.

December 10, 1919.

Gentlemen of the State Bankers' Association:

It is unnecessary for me to state my great pleasure in meeting with you at this Convention. I regret exceedingly that Governor Harding, could not be here as you desired. May I ask you to let me come in with you as a State Banker, for as you know, for twenty-five years this has been my business, serving a country agricultural community and I feel more at home.

I come not for the purpose of making a speech but to sit with you, if I may, in conference and to have a chat with you regarding some things of mutual significance and importance at this time. Indeed I regard it as unfortunate to come here perhaps in a way representing the Board upon which I have the great honor to sit, and you may think that I speak from the larger supervisory relations rather than with you as a banker. May I assure you I do not - a desire to be of service to my fellow-bankers, alone prompts me. My serving in this capacity however, as substitute today, is not your fault.

It is a signal honor to meet with this distinguished gathering of representative business men and bankers of Oklahoma, this great new Empire of our country. The extent of your immense territory and of your resources with only thirteen million of your forty-three millions of acres of land under cultivation, can hardly be measured. Some twenty odd years ago it was my great privilege to spend some time here. Your cities then were small; your country new. Transportation facilities of little consequence. Today the evidence of your prosperity, of your enterprise and vision, overwhelms me.

The rest of this country has learned to respect and honor Oklahoma not only for your progressiveness and your enterprise, but because of your Americanism so pronounced and so wonderful in the stressful days just passed. A state that can produce in one year (1919) nearly three hundred millions of dollars in food crops and 250 millions in oil and can produce and maintain $120,749,000 of live stock and have so potential a part in producing those things so necessary for the preservation of life and for the commerce of our nation, is incomparable. I appreciate too that you not only represent this great and significant volume of resources but that you men are the pioneers, the key men, the leaders in your banks, in your State chartered institutions, representing eleven million dollars of capital and nearly four and a half millions of surplus and the deposits of your clients approximating 150 millions of dollars. These figures are significant. And I would be indeed recreant as a citizen to come to you with any message of pessimism, because these are days when we should value the resources of our own lives and the contribution that the world and events have made to us. They are a challenge not to look backward but only forward to the opportunities and privileges and blessings that confront us and to encourage ourselves only because of the achievements of the past.

A writer recently says, "Pershing with the whole strength of his personality, set himself the task of injecting this "will to win" into his army. Nothing typifies Pershing's character so vividly as does the driving force that he put into his campaign. He had a plan of campaign, a definite plan, and he stuck to it through thick and thin, letting nothing come in the way.

" His officers were made to feel this driving force. "General Pershing has ordered this and it's got to be done" - that was the spirit that dominated the army.

"Just two instances:

"An officer sent this message to headquarters. "Unless I have reinforcements I must surrender." Immediately the order went back from Pershing: "Turn your command over and report at headquarters." An officer could ask for needed reinforcements, but he could not talk surrender.

" Pershing asked another officer: "What condition are your troops in?" "They are tired out. They are not in condition to continue in action."

" The answer was snapped: "It's not your men that are tired out, it is you. Show your men that you've got the stamina to hold on and your men will hold on with you."

Quoting from an editorial in a Metropolitan Journal.

"We are besieged by an army of calamity howlers. The Bolsheviki is the nightmare. The nerves of these people go all to pieces when they discover some radical literature or a radical speech, and they can almost name the day when Revolutionists will overthrow our Government."

"We must silence those who would make us believe that we are to have a panic, and to assert not only our courage but our faith in our American ideals. If those who had come before us hadn't had faith and courage there would not have been any United States of America. It is demanded of the Americans of today that they have the same faith and courage, if this country is to overcome any future difficulties and be better and greater for the experience."

"We must have patience. We all have our ideas as to what should be done, but they cannot be realized at once. The United States and its institutions have come through a century and a half of change. It is going on to other changes and further development. It is for us to concentrate on that fact with courage, with faith, and patience."

Why should our message not be one of optimism? Who upon this planet have greater reason to be optimistic than the citizens of our Republic? Two years ago or more we were called in the Providence of God, I believe, to the great mission of redeeming and saving the world from the despot and the autocrat to a larger and more pronounced liberty than yet any of us of the human family have reached or believed.

It is not possible that men could make the sacrifices in vain that our sons have made in going with clear hearts and clean hands to help the oppressed peoples on the other side of the world. To us who have had some humble part with them in the sacrificial thing, to go back to do our work in life as before would be to dishonor ourselves. It is our privilege as business men to occupy completely the sector that belongs to us. Great trials and obstacles and problems may confront us but what care we; this is what has made the bone and sinew of our people. This it is that has made our country great. As we confront the new situation economically in this world and as we launch our bark upon an uncharted sea, economically speaking, let us remind ourselves that our boys, new and untrained in war, for days and nights lingered in the trenches before the enemy, unafraid, and yet could not go out to engage the enemy in combat because the time was not yet. But when the word was given, trench or bombs or barbed wire or overwhelming odds did not retard or stagger. With one voice they cried "Let us go". It was this spirit, unconquerable, that made the issue complete and quick. When America with its men arrived a new spirit was projected into the plans of battle. It is this spirit that I would like to reflect, if I could, as we think of our problems as bankers. We have a right to believe that the things we have accomplished as a Nation and as men we cannot only duplicate in the future but can improve and enlarge.

Who would have thought that two years ago or so that this nation could have raised in money in so short a time a sum of thirty-two billions of dollars. Twenty-two billions to equip our boys and armies in the fields, and ten billions to loan to the Allied Nations. Do you remember that when it was proposed to make the first war loan the great financiers of our country from New York said "The sum asked for under no circumstances should be larger than a half billion of dollars; that it would be impossible to get more?"

The Secretary of the Treasury, struck the heart of the sons of liberty, they not only gave a half billion but over night added three and more full billions. You men in this room and patriots like you all over the country, have been the leaders in accomplishing this.

May I remind you that before we were called into this great conflict and when war was declared on the other side of the world, we owed the nations of Europe in trade balances about 400 millions of dollars. Besides this, Europe owned and held in their strong boxes about four and a half billion dollars worth of the securities representing the railroad and commercial and industrial capital of our country. The problem of paying not only this debt, but of buying back our securities which were being dumped upon the exchanges was most appalling. But to be brief, Gentlemen, we not only paid this debt but bought these securities back in the main.

I am sure from this brief recapitulation that I have given you a fair reason why we should be optimistic as we approach the problems of the future. The pioneer never was a pessimist. The producer who sees the reward of his labor is always an optimist and I appreciate today that I am facing not only pioneers but producers. Men, you are honored to have to do with the greatest producing class of America, namely, the farmer.

We hear much these days about "inflation" and "over expansion" and "deflation" of credit. Would not "credit regulation" be the better term?

It is perfectly obvious that with twenty-five billions of credit operations, represented by the Government bonds issued during the war, that for a long time things will be abnormal and it may be fair to state that the credit situation is inflated. This can only be changed by an absorption of this debt by the savings of the people. This means economy and thrift and saving on a no mean scale.

It is just as equally obvious that America never had such opportunities for production and when I say 'credit should be regulated' I mean that available funds of the banks in the Federal Reserve System and all banks generally should be wholly directed into the channels of production for the increase of all commodities, the need for which is world wide and without precedent.

Bankers will have to become analists, to discriminate carefully on loans will be a daily task; they will have to stand as guardians and trustees as never before in their business to see that no funds go for speculation whether it is upon the stock markets, in commodities or in land or anything else. The full power of all credit should be conserved and be behind production.

With patience and care America will surmount all her difficulties. Time is essential.

You know our city friends do not fully understand our relations to the economic welfare of this country. Too often they regard the dollar as representing true wealth. This is not so. There is no wealth created except by the laborer who produces an article to sell or the farmer who from the soil or the earth produces something for use to maintain and sustain life. And I consider it a signal privilege and honor to speak to men who have to do with the agricultural interests of our country. I am sure that none of us fully appreciate the significance of this. The country banker has without question the largest opportunity of all other business men at this time in our country. You are to deal directly with the men who this year in this nation of ours have produced ten billions of dollars worth of food crops alone and who added an increase of live stock approximating 700 millions of dollars.

I desire also to take you back briefly into the financial history of our own country as compared with your position today. I am reminded to do this as I have recalled for your consideration the achievements of these years and to state to you without any fear of exaggeration or contradiction that none of these things could have been possible if it had not been for the Federal Reserve System. As I have stated to you, my banking experience has been confined almost entirely for a quarter of a century to a State chartered institution. My life has been related almost entirely to the activities and business of the farmer and with you I have had the experience that every banker has had, not of going through a war but of going through financial war and panics. With chagrin and shame as a trustee of the people's money repeatedly we have had to apologize and refuse to give them their money when called for. And I wish here to state that I am a firm believer in the position of the State Banker in our economic life. I believe you have just as distinct a relation of importance to the people as the National Bank has. Each have their place and we should preserve the independent relations we occupy as bankers, but if we wish to preserve this independence I ask for your earnest and careful consideration of what this relation has to do with the Federal Reserve System at this time. Are you a participator in and for the System, or are you satisfied with being a beneficiary? Is it of any concern to you as a banker that you play into the game and be part and parcel of this financial organism or that you superficially stand on the side line, too often to criticise and yet partake of the blessing and benefits and make no real contribution. I do not come here today in any spirit of criticism, and as I commenced, I desire to talk only as a State banker with my fellow state bankers, believing that we have a message for your thoughtful consideration.

The remedy for our existing financial condition and the reoccurring panics in the financial history of our country was plain to all our Statesmen, but because of centralized influences, selfish in the extreme, it was quite impossible for legislators to project a programme to remedy this situation. It took a so-called University Professor, now the outstanding figure in all the world - President Wilson - to not only conceive the plan in its fullness and to add the necessary vision but also the necessary force to demand of congress the enactment of the law establishing the Federal Reserve System.

We shudder to think what our position would have been if this system had not been ready when war broke upon the world. Without doubt financial chaos would have reigned.

In the old days when the stock gamblers would plan their little parties and set the wheels of speculation going, when the game got beyond their control, you will remember, they were playing with the funds the producing people had on deposit, and when we desired these funds for their use, and for legitimate purposes to increase production and care for our communities, we were told that we could not have them and we were compelled to resort to one device and another to care for our need. The Oklahoma Bank had its reserves deposited at Kansas City, and Kansas City in Chicago and the Chicago Bank in New York. Thus were our reserves pyramided. Never mobolized for use for the day of stress. I am not going to waste any time today talking to any man here who has not the vision to see the importance of this great matter. The first necessity if we preserve our independent relationship as bankers to our own institutions, and our own communities, is the mobolization of our reserves for use. When we commit them to another interest, selfish or personal, they must of course be used for profit, and when same are so used they may not always be liquid enough to become available.

I do not believe it is necessary longer to try to prove to any banker what it means to mobolize reserves. This has been a proven fact and instead of pyramiding as we used to in the old days we find now a foundation in the mobolized reserves of the Federal Reserve System, upon which we can build a strong superstructure of credit. If the assistance of these reserves in the Federal Reserve System has not yet appealed to you as being the foundation of your own business as banker, I shall not waste time to argue further. It is obvious and self-evident if not appreciated. The larger contribution you make to those reserves, the stronger your bank will be and the greater your ability to serve your community. If you are still on the side lines as I have indicated, you are still building upon the contribution and service of others.

Do you think it would be possible for Oklahoma to have done her noble and splendid part in contributing $168,918,400 for the war issues of Government bonds, which ise approximately 30 millions above her allotment, if it had not been for this foundation laid?

In 1917, $25,693,596 worth of paper was rediscounted for banks in Oklahoma by the Federal Reserve Banks at Kansas City and Dallas. Thenin 1918, as the advantage of the System had become more widely known and as more banks had become members, a total of $148,345,896 was rediscounted for Oklahoma. For the first nine months of 1919 the total of paper rediscounted was $242,943,668. In other words, that much money was loaned to your state from outside sources; that much money was given to Oklahoma's use because it has banks prudent enough to join the Federal Reserve System. What will it be for 1920 if you do your duty in production?

May I suggest here, Gentlemen, the need of the closest analysis of all loans - that credit for speculative purposes, either on stock exchange, in commodities or in land, be denied. A stern situation confronts us. Twenty-five billions of Government debt has been created which must be absorbed by the savings of the people. Any additional credit created other than necessary for increased production, is but adding a hazard. This is your first duty as American bankers. Let us not inflate, but deflate in orderly fashion. We should all be preachers and doers in thrift and economy.

I need not take more of your time to review these fundamental propositions. We have at the present time in this country in the control of the Federal Reserve System, over two billions of gold. As near as can be estimated, there is outside some 600 millions of gold in the pockets of the people or in the control of state banks. I appeal to you, gentlemen of finance, as the custodians of the interests of your communities, that it is self-evident and highly important that this gold be deposited in the common reservoir for use in the day of opportunity or stress that may be before us.

While we are concerned for the day of stress, we must provide abundant resources to take advantage of our present job as a world power, to produce the necessities of life immediately and in volume as we never have before, if the world is to be saved from utter starvation and financial distress.

I know that there are alarmists in the country. The croaker, the critic, efficiency experts, and so called economists are always in evidence. They were here when the Federal Reserve System was established, you will remember. When the propositionswas conceived of bringing into the credit fabrics of our country the liquid assets, the wealth if you please, as represented by the notes of the farmer, merchant and manufacturer, to be available for currency, and when it was proposed, and as it is now a fact, to put with this wealth and credit of our people an additional 40% of gold to underly the Federal Reserve note issue, many of these experts met and said that currency would become too inflated and that we would not have enough gold to hold the structure up. Let me remind you again of the volume of gold now in the country, and of our currency medium and of its value as compared with any money standard in the world. But I would further remind you, if I may, in a more forcible way, that for the first time in the history of our country the real wealth as represented by the laborer and the products of our whole people and property are mobilized. Yes, we have the gold. We are a creditor nation. We have now a foundation to build the superstructure of credit, safe, deep and sound. We have democratized our banking system - 12 great banks with branches - serving all our people, commercially and geographically, and not any one group, city or district. The Federal Reserve System is the greatest single piece of constructive legislation ever placed upon the statutes of our country.

The demands to be made upon us if we do our part are to be so great that anything we can do to increase production as the leaders and representatives of the farmers should be done with precision and in volume. The Federal Reserve Act was passed to stabilize the industrial, commercial and agricultural interests of our country. The resources of the System were never calculated by the founders or by the Government to be used for speculation. It has always been the full purpose to have the law so administered by the Board at Washington to give preferential rates for all paper based upon commodities and to provide for the safe, ordinary movement of same to the markets. If we can as country bankers, play our part as leaders to see to it that our customers, our clients, will avoid all speculation in commodities and that there is an orderly market at all times, there never need be a fear but what you can go on and increase without fear the expansion of all effort to increase production. There may be someone here who would like to muddy the water and warn us about the danger of inflation. No prudent man in the banking business would fail to study and appreciate this danger. The events of the past four years, however, will not warrant any man in successfully stating or proving that we are suffering from over-inflation of currency at the present time, - but over-inflation of credit is a possible danger. May I refer briefly to the letter of Governor Harding to Senator McLean, dated August 8, 1919, as follows:

> "There has undoubtedly taken place during the last two years a certain amount of credit expansion which, under the circumstances connected with our war financing, was inevitable, but this will be corrected as the securities issued by the United States Government for war purposes are gradually absorbed by investors. This credit expansion is equal to the difference between the total of the war expenditures of the Government on the one hand, and on the other, the total amounts raised by the Government through taxation and by the sale of its obligations so far as paid for out of savings. No reliable estimate can be made of this difference, which must be gradually absorbed through future savings for the reason that banks are lending and will always lend freely on Government bonds as collateral."

I urge upon every banker here to read that letter carefully and to get is import. I again wish to state that I am an expansionist or any other old thing that you may wish to call it, when I say to you that we can finance the farmer without limit to increase his operations to produce that which the people may eat or wear without any danger of over-production. No man or economist lives in this world who can guage or prophesy what the outcome will be economically in the countries of Europe, so weak and broken down by the war, but one thing we may be sure of, this slack will never be taken up by our standing still or by piling up reserves. Again let me state, real wealth is only produced. Our problem is simple and we should learn our lesson as rapidly as possible. Produce more, spend less, economize and save. I do not come here to sell anything, or to solicit anything. I may perhaps be making a feeble effort to advertise something worth while.

You remember the story which is the foundation of Russell Conwell's great lecture entitled "Acres of Diamonds" which he gives so simply and plain to his audiences by illustrating how so many people look for their fortune, their El Dorado, somewhere else than where God has put them to work and achieve. He tells how a farmer, I think it was in Africa, who had heard of a great diamond mine somewhere and with all the allurement and passion that came to him with the overwhelming desire to possess an immense fortune he sold his little farm and personal property and went on a long search for the diamond mine. The purchaser of his farm one day, while at the well watering his stock, discovered a glistening in the sand and upon investigation found a diamond. On further investigation he found more and to make a long story short the purchaser of the farm was the owner of the greatest diamond mine in the world. Illustrating a great lesson that we all ought to learn to value well our own possessions, our present opportunities and our place in life. It would be well worth while to think of this as citizens of the Republic, but I would like to call your attention to the other story as a basis for his other lecture entitled "Five Million Dollars for the Face of the Moon." He commences this lecture by telling the simple story of a man lying sick unto death in one of our Eastern cities, given up by physicians, surgeons and specialists. He resigned himself to die. An old lady in the neighborhood hearing of his condition asked for a visit. She prayed she might have the privilege of serving some tea brewed from herbs she had gathered in the woods. The result was, to make another story short, the patient began to improve, soon was convalescent and began to realize he had a lease on life.

He began to study and think of what he should do with his life so dearly bought. Being a true philosopher, he decided to secure the recipe for the herb tea which cured him. He began to sell it to his friends, its fame grew, soon he had salesmen and wagons on the road. He began to build large buildings to manufacture and the world was blessed by the use of this new medicine. His advertisements appeared on the barns and the fences, on the sides of the roads and on places of prominence. Even the Rocks of Gibraltar were plastered with advertisements of his medicine so that the passengers on passing ships could read; on the mountains of the Andes he dared to go. One night his friends found him star-gazing, looking up into the moon in all its brilliancy. One bold spirit asked him what he was doing. He sighed and said "If I could secure the face of the moon I would give five million dollars". He was asked "What for?". He said he would place five words upon the face of the moon so that all the world might gaze, read and profit thereby. He was asked what the five words would be that he would choose from the languages of the earth to place there. What do you suppose were the words he would place there? The great lecturer, Conwell, after taking his audience to this point would leave them and draw lessons from life as to what man was really placed upon the earth for. Service. The five words he would place upon the moon were these: "Find Good, Then Advertise It". A simple but wonderful thing which I have often thought we should practice. There is in the heart of man enough good which if encouraged, corralled, coached and coaxed would be sufficient to drive out all the evil or darkness. <u>I am here to advertise, if I may, a good thing.</u>

I believe, Gentlemen, that from this war we have all become better men, better citizens, but I would like to apply this last thought to you as State bankers, asking for your good consideration of the benefits that may come to you by becoming members of the Federal Reserve System.

To those of you who as bankers appreciate the new responsibility upon you as community builders and as trustees of the people's money, I ask for your very careful consideration to the importance to you of placing your banks into the Federal Reserve System, and having that close complete relationship which assures absolute safety for the future, whatever problems may be. You will be a part of a Federal institution, which is nation-wide, cohesive, a complete financial organization having full respect for every interest of our people. An organization controlled by the strongest Government on the face of the earth. A system which today consists of 7821 national banks and 1308 state institutions, with a total capital of $1,527,171,000 and a surplus of $1,312,105,000 and with total resources of $30,280,234,000 indicate a financial machine of strength and one of cooperative power without compare. An institution which has in its control over two billion dollars worth of gold, the greatest amount of gold ever assembled in the history of the world in the control of any one Government.

Does it mean anything to you to be a real part of such an institution; to be recognized by it and as part of it?

Have you taken time to secure the viewpoint of your depositors when they once grasp this tremendous fact and as they draw checks upon your institution upon which is printed the fact that your bank is a member of the Federal Reserve System and that the check of that customer passes current anywhere in the United States?

You may, if you please, magnify some of the smaller losses or charges that you would have in joining the system, but let me appeal to you as I have tried to thus far, to get the larger viewpoint of your leadership as a banker and as a leader in your community. That you put first things first. You may discover that this principle when once worked out will be not unlike the tides of the ocean. They come in with unfailing regularity and when they go out they take with them not only the great war vessels, merchantmen, but the little dory and canoe are lifted alike upon the bosom of the tide. A well known philosopher put the idea something like this: "Just as in religious hysteria a single text becomes a whole creed, to the exclusion of every other text, and instead of being itself subject to rational tests is made the sole test of the rationality of everything else."

I am confident, Gentlemen, that if we would give more attention to these first things, like all our troubles, the small ones would all recede and be forgotten.

Besides the enlargement of your business and the opportunity of service, to say nothing about enhanced profits as a member of the Federal Reserve System, you would have the privilege of the rediscount at the Federal Reserve Bank, to care for all your needs with your customers engaged in commerce and industry, and with your farmer customers on paper taken for not to exceed six months, representing the actual activity of a farmer in the operation of his business.

The need for enlarging his operation is so great and so immediate that there will be no paper coming to the Federal Reserve System during the next five years that will be regarded as safer, as so fundamentally proper, as this paper. This may mean to you, Mr. Banker, that you will have to change some of your methods in taking this paper. It may be to your advantage to secure his statement to his worth, briefly, in asking for credit. It may become necessary for him to attend to his paper more promptly at maturity. It may become necessary for you to change your operations in taking this paper for six months instead of for a year or more or upon demand. But if so, this will be distinctly to your advantage. I have often wondered why it was that State bankers will sit back without any seeming concern, allow their competitor perhaps in the National banking System to align himself with this great parent institution of power and strength and position and go after the business and get it, when he could have the same advantage that every national banker has and under the law all the existing advantages that he may enjoy as a State chartered institution.

To be able to discount your customers' paper by sending the same as you do your cash items to the Federal Reserve Bank in proper form to receive credit immediately. And also where the rates of discount are certainly always advantageous.

I am not making a plea here for the sake of getting business but only of showing up the actual advantages that would be derived. Do you understand that what you would deposit with the Federal Reserve Bank of your District would be an actual reserve upon which you could build credit necessary for your operations and which would never be denied you.

As I stated previously, I believe in the independent relationship that we have and prize as bankers. We can not tolerate a branch bank system as it is hostile to the American idea.

This is one way to fortify your position; to use the Federal Reserve as a reserve and to understand that your loans can be taken to this elder brother in the next room and that you can realize same in cash by taking back with you good Federal Reserve notes.

I appeal to you, gentlemen, to give this question of the privilege of rediscounting in the Federal Reserve System more serious and careful consideration than I feel you have given it thus far. The profit that you would make surely would take up any slack that you would lose because of the non-payment of interest upon your balance. Again my I remind you that your reserve is not only a reserve for the day of stress, but for increased opportunity. I shall not attempt to argue with you. If experience has not taught you this it will be a waste of time for me to continue.

Again may I inform you that you can ask for currency of the reserve bank or the branch bank and same will be shipped to you without cost, fully insured and express charges paid. Is that worth anything to you?

I also wish to remind you that you can transfer funds by telegraph, without expense, to any part of the country.

It has been urged that you may be deprived of the exchange which you have been accustomed to on checks sent you for collection. This has been of course a knotty problem, but may I remind you of the wording of the Act, which is explicit and in fact mandatory and under the recent ruling of the Attorney General of the United States the Federal Reserve Bank can do nothing else but to see that the checks coming to it are collected at par and they are not permitted to pay exchange. Your recourse, if any, is to the Congress of the United States, and not in criticism of the Board or Banks.

May I refer you again to Section 13 and ask for your serious consideration and also Section 16.

The Federal Reserve Banks are required under Sections 13 and 16 of the Federal Reserve Act to receive from member banks at par deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts, payable upon presentation, and also, for collection, maturing notes and bills. There is a proviso to this section which allows member and non-member banks to make reasonable charges "to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Bank". The Attorney General of the United States has construed this as meaning that a Federal Reserve Bank cannot legally pay any fee to any member or non-member bank for the collection and remittance of a check. It follows therefore that if the Federal Reserve banks are to give the service required of them under the provisions of Section 13 they must in cases where banks refuse to remit for their checks at par, use some other means of collection no matter how expensive.

The action of the various Federal Reserve banks in extending their par lists has met with the approval of the Federal Reserve Board, which holds the view that unless the law should be amended by Congress the Federal Reserve banks must use every effort to collect all bank checks received from member banks, at par.

About 80 per cent of the banks of this country, members and nonmembers, are now upon a par basis. It will not be long before it will be 100 per cent and then I predict that we will be asking ourselves the question "Why didn't we do this before; why did we stand in our own light and step on our own feet on so elementary a proposition?"

Finally, let us have a full understanding of the wonderful opportunities that are before us as business men not only to develop our communities, increase the production upon these farms, to make living conditions happier and our people more contented, but to enlarge our vision as business men, for I am sure that in a few years hence we will find our deposits and our influence doubled and quadrupled because of this larger application and relationship.

You are all familiar with the rules of the Federal Reserve System. They are precise, short and complete and to remind you that while there is criticism here and there, as there always will be, that you have not seen the national banks scrambling to get out of the system. They fully appreciate its benefits and are reaping them daily while I fear many of our State bankers are sleeping at the switch. It has cost our country a great treasure of blood and money to have won this world war. You have a right to expect the spiritual blessings that will come from this sacrificial effort and we have just as much right to reap any economic rewards that may come. Let us have an appreciation in our conduct as stewards of the people's money for this heritage.

A short time ago I went with my children to the great Congressional Library at Washington, the most beautiful building in all the world. Some great heart and mind has caused to be chiseled on marble short mottoes to be treasured and never to be erased. One, my child wrote down, to my great pride, which I would like to pass on to you as a thought worth your note. This is it: "We taste the spices of Arabia; yet never feel the scorch of the sun that brought them forth."

Indeed it has cost much to make this Republic. The men of the Revolutionary and of the Civil Wars and of the great World War have felt the heat of the sun, they have paid the price. To you and your children will be the blessing of ever tasting the fruit. Let us be worthy of this heritage.

By Dr. Miller

Readjustment of industry, business and finance to a peace basis was the economic problem with which the sudden termination of hostilities a year ago confronted the United States. On the whole, the close of the year 1919 shows considerable progress toward the solution of the problem; indeed, in some important respects the year has shown the problem to be less difficult than was originally expected.

The year has been one of great activity in industry, little embarrassment having been experienced by the so-called war industries in making the shift to peace-time conditions. Unemployment, which was widely dreaded a year ago as likely to be the most troublesome feature of the readjustment process, has found its natural economic corrective in the active demand for products in practically every field of industry. There has, in consequence, been a scarcity of labor in many lines of industry throughout the larger part of the year, particularly of unskilled or common labor, with wages ruling high and going higher. Judged by most of the accepted criteria of business, the year has been a successful one, and from the point of view of earnings, a satisfactory one.

There is, nevertheless, some apprehension expressed as to the future. Conditions are not yet regarded as stabilized upon a a secure foundation.

The one important particular in which no readjustment is shown for the year 1919, is the price situation. Rectification of the price situation was widely believed a year ago to be the necessary forerunner of any real and lasting return to normal and stable conditions.

This view is still widely entertained; indeed, recent events have confirmed many in the opinion that the crux of America's after-war problem is the readjustment of prices. Prices are still upon what must be regarded as a war level, with a tendency to rise rather than to fall. Latterly, the most serious aspect of the price situation has been the aggravated cost of living condition. It has become the subject of widespread complaint. There is little reason to doubt that the irritation caused by the rising cost of living is the source of much of the acute industrial and social unrest which is being experienced in the United States.

Were it not for this factor of the situation it is probable that less anxiety would be felt in business circles over the high level of prices than a year ago, and there would be less impatience for quick and large results. For it is getting to be more generally appreciated that rectification of the price situation, and, in general, a return to stable financial conditions is going to be a matter of years instead of as was first expected, a matter of months. Those who took a sanguine view of the price outlook a year ago, and who expected an early drop of prices, believed that high prices were due simply to transitory conditions, and the acute demands for goods occasioned by the war -- otherwise stated, to disturbed conditions of production and shortages of supply, both of which conditions were expected to find swift correction in the course of the year 1919.

The fact that prices have not declined during the past year but, on the contrary, have risen, is leading to a considerable revision of American views of the fundamental factors in the price situation.

It is now getting to be more generally appreciated, and more frequently admitted, however grudgingly by some, that the main factor in putting up and keeping up prices to their existing unprecedented levels in the United States, has been the expanded state of banking credit. That prices may be expected to continue high until the volume of credit and currency is materially reduced, or production is greatly increased, is coming to be the view of thoughtful students of post-war conditions. That both of these processes are likely at best to be slow, seems fairly certain. With labor fully employed, as it is, increase of production in any large way could come only through increased efficiency of labor. As regards the volume of credit, reduction might result either from the liquidation which would follow a let-down of business and industrial activity, or from increased saving and investment on the part of those classes in the community which have been the main beneficiaries of high and rising prices. But there is little prospect of any of these things occurring so long as the present reign of extravagant living and spending continues. The fact, however, that prices for the most part have risen during the year 1919, and the prospect that they will continue to rise until the expansion of credit is brought under effective control, makes the immediate problem of credit control, in the United States not that of contracting credit but that of regulating its growth so as to prevent a further rise of prices and a further aggravation of cost of living conditions.

Even thus the problem of credit control in the United States will have its sufficient difficulties, especially in view of the undoubted large drafts that will be made upon the credit resources of the country in financial support of Europe's needs.

Growing discontent with rising prices, and public recognition of the dependence of prices on credit, however, will not much longer sanction an attitude of hesitation on the part of the agencies of banking control in the United States. Credit must be controlled in order that prices may be controlled. This is the legacy of 1919 to 1920. The still undetermined question is the method of control which will be best adapted to American conditions, especially in view of the existing unprecedented and complex situation.

The data assembled in the following table show the major changes in the banking situation of the United States since the beginning of the European war. The table shows under the heading of "Deposits" the increase which has taken place in the volume of credit extended by the banks (national and state banks and trust companies) and, under the headings "Loans and Discounts" and "Investments", the operations against which the newly created credit was extended. The dates selected are (1) the eve of the beginning of the European war; (2) the eve of the entry of the United States into the war; (3) the armistice; and (4) the most recent date for which data are available:

Date	'Gross Deposits'	Loans and Discounts	Investments
	(In millions of dollars)		
June, 1914	16,264	12,259	3,560
March, 1917	24,863	17,020	4,955
November 1, 1918	28,862	19,792	8,909
October, 1919	33,159	22,275	9,751

The above figures, which disclose an expansion of bank credit since June 1914, of over one-hundred per cent show that the expansion of banking credit did not come to a stop with the armistice. Expansion has continued at an alarming rate since then. Between the dates of November 1, 1918 and October 1919, 4,297 millions of dollars of new credit have been created; loans increased 2,483 millions of dollars; and investments 842 millions of dollars. This compares with an increase of 3,999 millions of dollars of new banking credit in the shape of deposits between the dates of March 1917 and November 1, 1918. Similar comparison for the item "Loans and Discounts" shows that between the same two dates there was an increase of 2,772 millions of dollars, and for the item "Investments" for the same dates, an increase of 3,954 millions - or 79.8 per cent. For the whole period, March 1917 to October 1919, 8,296 millions of dollars of new banking credit had been created, most of which is undoubtedly to be attributed to the exigencies of government financing.

It will be noted that the most striking rate of increase is found in the item "Investments" between the dates March 1917 and November 1918. This was the period when the Government's great bond-issuing operations were at their height: the banks were under pressure to make heavy investments of their credit in subscribing for government loans; they were also extending credit accommodation on liberal terms to their customers for the like purpose. This was also the period when the total currency in circulation was increasing most rapidly - the increase between March 1917 and November 1918 amounting to over 1,250 millions of dollars.

It has recently been estimated that the banks of the country hold among their investments over four billions of dollars of government war securities (Liberty bonds, Victory notes or Certificates of Indebtedness) and, among their loans and discounts, two and a half billions or more representing loans made to customers secured by government obligations and made, presumably, for the most part, in aid of customers' subscriptions to government loans. Altogether then, it appears that the banks are carrying, directly or indirectly, between six and seven billions of government war obligations against which has been extended newly created credit in the form of deposits or currency.

This newly created credit, like the new currency, constitutes an addition to the supply of the country's purchasing media. It is for all practical purposes to be regarded as money. It is acceptable as means of purchase and payment. It acts on prices substantially the same as money. And it is thus that the matter of prices becomes a matter of credit, and credit control a matter of urgency.

That the great expansion of credit which has occurred in the United States has been profitable to the banks, and that they may not be expected to pursue a policy of conserving the use of credit except as they are put under pressure to do so, is a fair deduction from a recent statement of the enormous increase in the earnings of the national banks during the past five years, the increase from July 1, 1914, to July 1, 1919, amounting to over 90 millions of dollars yearly, and being greater than for the entire forty-year period prior to July 1, 1914.

Borrowers, because of the elevation of prices to the extent of one hundred per cent or more, in the past five years, are now obliged to borrow two dollars to handle the same amount of physical turn-over in their businesses that formerly required but one dollar. The cost of credit in handling a given volume of production, physically measured, is, therefore, a much larger item than it was formerly. What is cost to the borrower is gain to the lender. Money lending has consequently been a profitable traffic even when all that the traffic would stand has not been charged, particularly as the banks in order to supply the increased credit are not obliged to incur commensurate increase of expense.

Under the Federal Reserve System, the banks are indeed in an unique and favored position. There is no hard and fast limit upon the amount of credit or currency which they can supply to their customers. The limitation upon their loaning and earning power which was imposed upon the national banks before the advent of the Federal Reserve System in the shape of the requirement that the banks must maintain actual minimum cash reserves, has given way under the Federal Reserve System to the easy requirement of a reserve balance maintained with the Federal Reserve Bank. This balance is only partly a balance created by actual deposit of cash; for the rest it is a book-keeping balance built up and maintained through borrowing from the Federal Reserve Bank. A bank that wishes to enlarge its lending power, has, therefore, only to borrow from its Federal Reserve Bank to build up its reserve balance to the requisite extent. Borrowing reserve credit from the reserve bank at rates fixed artificially low for the purposes of accommodating the financial program of the Treasury, the process of satisfying the American appetite for credit, has, therefore, been simple and easy and highly profitable to the banks.

The extent to which the resources of the Federal Reserve System have been drawn upon is revealed in a comparison of its discounts and advances, which amounted to 100 millions just before the United States entered the war in April 1917, and to over 2,700 millions at the end of November of this year.

That the reserve system was able to respond to the heavy demands of its member banks for advances was due to the enormous increase in its gold reserve. Between the dates given above, the gold holdings of the Federal Reserve System rose from 943 millions to 2,093 millions. The twelve Federal Reserve Banks now hold over two-thirds of the total estimated monetary gold stock of the United States, and the country's gold holdings, it will be remembered, were enriched to the extent of over 950 millions of dollars by the heavy inflow of gold to the United States from Europe in the years 1915 and 1916. It has been the concentration of this gold in the Federal Reserve Banks, added to the gold otherwise drawn from the channels of circulation, that has made it possible for the Federal Reserve Banks to expand their credit to the vast extent they have since the United States' entry into the war without bringing down their reserve percentage to a point calculated to excite apprehension. The reserve percentage of the twelve Federal Reserve Banks against combined deposit and note liabilities stands a little above forty-five per cent toward the close of the year 1919, as compared with fifty per cent at the close of the year 1918, and eighty-five per cent at the beginning of the war in April 1917.

The embargo on gold exports which was lifted June 10th of this year, has thus far cost the United States 292 millions of exported gold. But this loss has been off-set to the extent of fifty per cent or more, by 135 millions of gold held abroad and acquired from Germany, and small imports constantly trickling into the country. It is notable that neither the lifting of the gold embargo nor the enormous expansion of bank credit which has occurred in the last two and a half years, has resulted in any real impairment of the gold basis of the American credit structure, judged by the standards of five years, or more, ago.

Indeed, it appears that the gold cover held against our greatly increased volume of bank liabilities owing to the public is today considerably in excess of what is was just before the outbreak of the war in June 1914. As nearly as the matter can be computed, there are held in the banking reserve of the United States (and this means, except as to an almost negligible percentage, in the reserves of the Federal Reserve Banks,) about seven dollars of gold against each one hundred dollars of the total outstanding volume of Bank deposits (exclusive of Federal Reserve Bank deposits) and Federal Reserve Notes in circulation, whereas 4.8 dollars were so held in 1914. Bank liabilities, as a whole, are therefore about fifty per cent better covered in gold than was the case some five years ago. In a technical sense, therefore, the American reserve position is still altogether satisfactory, thanks to the large accessions to our gold holdings brought early in the war, and since then concentrated in the Federal Reserve Banks. Indeed, much of the gold thus acquired and brought under banking control might be parted with without any serious impairment of our necessary reserve strength.

The apprehension recently expressed in some quarters because of the decline of the reserve percentage of the Federal Reserve System since the armistice from fifty per cent to forty-five per cent, is not justified by any impending or threatening inadequacy of our gold reserve. Strongly entrenched as the United States is by reason of the creditor position the country has attained to in the past four years, there is little likelihood of serious impairment of our gold reserve through external drain. There will probably be little or no occasion, therefore, for the Federal Reserve Banks in the near future, to shape their discount policy for the purpose of protecting their reserves. It is, indeed, their very secure position in this respect that may prove a source of embarrassment to them in undertaking a to set up an effective control of credit by making it difficult for them in the face of relatively high reserves to initiate and pursue a discount policy for the purpose of restraining the continued growth of the volume of banking credit and the uninterrupted use of the resources of the Federal Reserve System for this purpose.

With the Treasury frequently in the market during the year 1919, as a large borrower, and with the prospect that the financial situation of the Government will, for a considerable time, necessitate heavy borrowing from the banks, there has been a natural reluctance on the part of the Federal Reserve System to advance discount rates. The favorite form of borrowing from Federal Reserve Banks during the past two years and a half has been member banks' bills payable collateralled by government securities, especially the short-dated Certificates of Indebtedness. Out of a total of 2,710 millions of bills held on November 28,1919, 1,736 millions consisted of what has come to be known in American banking as "war loan" paper; that is, bills collateralled by government securities. Preferential rates were established by the reserve banks upon this class of paper as against ordinary commercial paper, early in the war, and until very recently this paper also enjoyed a substantial differential under the rate borne by the government security by which it was collateralled.

This policy which was adopted at the beginning of the war for the purpose particularly of stimulating subscriptions to the government's short dated securities has been proving itself a questionable expedient in recent months. So long as the government maintained a pretty effective control over new security issues through its Capital Issues Committee, and over production through the War Industries Board, and so long as general conditions gave little incentive to speculation and to speculative business enterprise, little harm followed perhaps from rates that were purposely fixed at a low level in order to stimulate interest in government finance and in war production. But the situation has materially changed and there has been much evidence in recent months that the facilities of the Federal Reserve System which the Federal Reserve Act tried carefully to protect from being employed for speculative uses have been drawn in increasing volume into the field of speculation in stocks, land and commodities by reason of the easy access given to Federal Reserve Bank facilities, in aid of government financing.

As a first step in the correction of this condition, reserve bank rates on war loan paper have recently been advanced to a parity with rates borne by Treasury Certificates, the differential which was formerly maintained between them being entirely removed. At the same time a policy of "direct action" so-called, is being advocated by those who doubt the efficacy of credit control by rates under present anomalous conditions, and who also fear the effect of any radical departure with respect to discount rates on the Treasury's position, so long as it continues to be a large borrower. By

direct action in present

circumstances is meant a supervisory restriction of the use of credit particularly for speculative purposes through close contact and cooperation of leading member banks with the policies and purposes of their Federal Reserve Banks. This method of control is now being applied, and the experiment will be watched with interest.

It is possible that direct action of the sort indicated above may succeed as a method of controlling the excessive use of credit for stock speculation. In the opinion of many, however, the existing credit situation in the United States which calls for correction is not alone the excessive use of credit in speculation, but the excessive use of credit in ordinary trade and industry. The inflations produced by the war have given a speculative tinge to much ordinary business and industrial enterprise. Those who take this view of the credit situation hold that the proper and primary method of control is through discount rates, and they believe that the credit situation will not be brought under effective control in the United States until ways are devised here of making reserve bank rates "effective" in the sense which is well understood in Europe, particularly in England where the discount rate has long been successfully employed as an instrument of credit control and regulation. It is probable that if the banking situation in the United States were not as closely tied up as it still is, unfortunately, with the Treasury situation, the year 1920 would see important steps taken by the Federal Reserve System toward the development of a technique of control through rates. In defect of any considerable or important action along this line, there is likely to be experimentation with direct action as a method of control, for the credit situation can not any longer be left to take its own course with the many incentives that post-bellum conditions are giving to the exploitation of bank credit by financiers and traders and promoters of the inflationist type.

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FEDERAL RESERVE BOARD

WASHINGTON

December 6,1919.

X-1746

Dear Sir:-

Your attention is directed to the Board's circular No. 21, Series of 1915, dated December 27, 1915, a copy of which is herewith enclosed.

The provisions of this circular are still in effect, and the Board desires, in order that there may be no misunderstandings, that you bring this to the attention of each of your directors.

Kindly acknowledge receipt.

Very truly yours,

Enc.

Governor.

To Chairmen of all F.R. Banks.

X-1746 a

Circular No. 21
Series of 1915.

FEDERAL RESERVE BOARD.

Washington, December 27,1915.

Eligibility of Candidates for Directorships.

The Federal Reserve Board has adopted under date of December 23 the following resolution:

Whereas, It is the opinion of the Federal Reserve Board that persons holding political or public office in the service of the United States, or of any State, Territory, county, district, political subdivision, or municipality thereof, or acting as members of political party committees, can not consistently with the spirit and underlying principles of the Federal Reserve Act, serve as directors or officers of Federal Reserve Banks.

Resolved, That the Federal Reserve Board hereby expresses to the member banks its opinion that no such persons should henceforward be elected or act as directors or officers of Federal Reserve Banks; and prescribes as a condition of eligibility that candidates for election shall comply with the terms of this resolution.

Resolved further, That copies of this resolution be sent to every member bank and Federal Reserve Bank and to all directors of Federal Reserve Banks.

While the Board is of the opinion that the policy outlined in this resolution should become effective at once, directors of Federal Reserve Banks elected prior to the date of its adoption will not be required to resign their positions as such directors until the end of the term for which they were elected.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS., X-1747

For immediate release.

Announcement was made today that under arrangements made between the Treasury and the Federal Reserve Board, standard silver dollars that are free in the Treasury will until further notice be delivered against other forms of money to the Division of Foreign Exchange of the Federal Reserve Board, which will, through the Federal Reserve Bank of New York, cooperating with the branches of American banks in the Orient, employ such dollars in regulating our exchanges with silver standard countries.

This arrangement does not, of course, affect the redemption of outstanding silver certificates in standard silver dollars.

December 6, 1919.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

X-1748

Dear

Receipt is acknowledged of your letter of the in which you protest against the policy which has been adopted by the Federal Reserve Banks with the approval of the Federal Reserve Board in the matter of the collection of checks which are received by Federal Reserve Banks from their member banks or from non-member banks which maintain clearing or collection accounts with them.

The Board's action is based upon its conception of the very evident purposes of the Federal Reserve Act. Section 13 of the Act begins, as follows: "Any Federal Reserve Bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal Reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills." Even though the Federal Reserve Board has heretofore ruled that the permissive "may" as used in the foregoing paragraph should not be construed to mean the mandatory "shall"nevertheless it is clear that a Federal Reserve Bank in order to do any business whatever must exercise some of the permissive powers authorized by law. It would be impossible otherwise for a Federal Reserve Bank to afford to its member banks many of the privileges which the law clearly contemplates and to which the member banks are clearly entitled. But independently of a discussion of this phase of the situation,it seems to the Board that doubts upon this question are resolved upon a consideration of the provisions of Section 16. "Every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors." In this case, the obligatory "shall"is used so that there is no option in the Federal Reserve Bank so far as checks and drafts upon its depositors are concerned. From this it may be argued that as the depositors of a Federal Reserve Bank are member banks there is no obligation upon the Federal Reserve Bank to receive on deposit at par checks on non-member banks, but even if the language of Section 13 be construed as permissive there seems to be no question that the Federal Reserve Bank has the <u>right</u> to receive on deposit from any of its member banks any checks or drafts upon whomsoever drawn, provided they are payable upon presentation. The whole purpose of the Act demands that in justice to member banks, they should exercise that right.

Section 16 further provides that the Federal Reserve Board "may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks *** and may also <u>require</u> each such bank to exercise the functions of a clearing house for its member banks." In accordance with the purpose of this paragraph, the Federal Reserve Board, with the view ultimately of establishing a universal or national system of clearing intersectional balances as well as bank checks and drafts, has established a gold settlement fund through which daily clearings between all Federal Reserve Banks are consummated and has also required each Federal Reserve Bank to exercise the functions of a clearing house for its member banks. In order, however, to make fully effective its facilities as a clearing house in accordance with the terms of this section, there does not seem to be any doubt that the Federal Reserve Bank should not only exercise its obligatory power to receive from member banks checks and drafts drawn upon other member banks, but that it should also exercise its permissive power to receive from member banks any other checks and drafts upon whomsoever drawn, provided that they are payable upon presentation.

There are no doubt many non-member banks without sufficient capitalization to make them eligible for membership in the Federal Reserve System, but provision is made for such banks in Section 13 by authorizing the Federal Reserve Banks, for purposes of exchange or of collection, to receive deposits from any non-member bank or trust company. But for the fact that the small country banks are able to have their out of town items credited at par by some city correspondent, there is no doubt that many more of them would avail themselves of the non-member collection privilege than have done so.

There is a proviso in Section 13 which allows member and non-member banks to make reasonable charges "to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks." This has been construed by the Attorney General of the United States as meaning that a Federal Reserve Bank cannot legally pay any fee to a member or non-member bank for the collection and remittance of a check. It follows, therefore, that if the Federal Reserve Banks are to give the service required of them under the provisions of Section 13 they must in cases where banks refuse to remit for their checks at par use some other means of collection no matter how expensive.

The action of the various Federal Reserve Banks in extending their par lists has met with the cordial approval of the Federal Reserve Board, which holds the view that under the terms of existing law, the Federal Reserve Banks must use every effort to collect all bank checks received from member banks at par. Several of the Federal Reserve Banks are now able to collect on all points in their respective districts at par and new additions to the other par lists are being made every day. The Board sees no objection to one bank charging another bank or a firm or individual the full amount provided in Section 13 of the Federal Reserve Act (10 cents per $100) and has not undertaken to modify these charges, but the Act expressly provides that no such charge shall be made against the Federal Reserve Banks.

It is the Board's duty to see that the law is administered fairly and without discrimination and that it applies to all banks alike, and it is making an earnest endeavor to carry out the laws as construed by the highest legal authority of the administrative branch of the Government.

TREASURY DEPARTMENT

X-1749

WASHINGTON

November 29, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period September 1 to September 30, 1919, amounting to $53.70, as follows:

FEDERAL RESERVE NOTES, 1918.

	$500	$1000	Total
Boston...............	---	300	300
Philadelphia.........	200	200	400
Minneapolis..........	500	---	500
	700	500	1200

1200 sheets at $44.75................$53.70

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compen-sation.	Plate Printing.	Materials.	Inc. Compen-sation.	Total
Boston........	300	$4.43	$4.50	$3.00	$1.50	$13.43
Philadelphia..	400	5.90	6.00	4.00	2.00	17.90
Minneapolis...	500	7.37	7.50	5.00	2.50	22.37
	1200	$17.70	$18.00	$12.00	$6.00	$53.70

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

November 29, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period September 1 to September 30, 1919, amounting to $178,642.00 as follows:

	$5	$10	$20	$50	$100	Total
Boston...........	136,000	359,000	43,000	2,000	- ---	540,000
New York.........	518,000	567,000	99,000	18,000	- ---	1,202,000
Philadelphia.....	14,000	183,000	59,000	- ---	1,000	257,000
Cleveland........	11,000	43,000	67,000	8,000	- ---	129,000
Richmond.........	9,000	72,000	53,000	- ---	- ---	134,000
Atlanta..........	72,000	45,000	- ---	- ---	- ---	117,000
Chicago..........	403,000	342,000	88,000	11,000	1,000	845,000
St. Louis........	150,000	10,000	40,000	4,000	- ---	204,000
Minneapolis......	49,000	20,000	10,000	- ---	- ---	79,000
Kansas City......	71,000	25,000	- ---	- ---	- ---	96,000
Dallas...........	- ---	- ---	14,000	2,000	- ---	16,000
San Francisco....	221,000	95,000	57,000	- ---	- ---	373,000
	1,654,000	1,761,000	530,000	45,000	2,000	3,992,000

3,992,000 sheets at $44.75..........................$178,642.00

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total.
Boston........	540,000	$7,965.00	$8,100.00	$5,400.00	$2,700.00	$24,165.00
New York.....	1,202,000	17,729.50	18,030.00	12,020.00	6,010.00	53,789.50
Philadelphia..	275,000	3,790.75	3,855.00	2,570.00	1,285.00	11,500.75
Cleveland.....	129,000	1,902.75	1,935.00	1,290.00	645.00	5,772.75
Richmond......	134,000	1,976.50	2,010.00	1,340.00	670.00	5,996.50
Atlanta.......	117,000	1,725.75	1,755.00	1,170.00	585.00	5,235.75
Chicago.......	845,000	12,463.75	12,675.00	8,450.00	4,225.00	37,813.75
St. Louis.....	204,000	3,009.00	3,060.00	2,040.00	1,020.00	9,129.00
Minneapolis...	79,000	1,165.25	1,185.00	790.00	395.00	3,535.25
Kansas City...	96,000	1,416.00	1,440.00	960.00	480.00	4,296.00
Dallas........	16,000	236.00	240.00	160.00	80.00	716.00
San Francisco.	373,000	5,501.75	5,595.00	3,730.00	1,865.00	16,691.75
	3,992,000	$58,882.00	$59,880.00	$39,920.00	$19,960.00	$178,642.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

X-1747

WASHINGTON

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1919, amounting to $170.05, as follows:

FEDERAL RESERVE NOTES, 1918.

	$500	$1000	$10000	Total
New York...........	1,900	1,400	300	3,600
Cleveland..........	100			100
Chicago............	100			100
	2,100	1,400	300	3,800

3,800 sheets at $44.75........................$170.05

The charges against the several Federal Reserve Banks are as follows:

			Bureau appropriations			
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total.
New York......	3,600	$53.10	$54.00	$36.00	$18.00	$161.10
Cleveland.....	100	1.48	1.50	1.00	.50	4.48
Chicago.......	100	1.47	1.50	1.00	.50	4.47
	3,800	$56.05	$57.00	$38.00	$19.00	$170.05

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-1746

November 29, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1919, amounting to $165,082.75, as follows.

	$5	$10	$20	$50	$100	Total
Boston...........	169,000	82,000	89,000	10,000	- ---	350,000
New York..........	298,000	642,000	231,000	19,000	- ---	1,190,000
Philadelphia.....	420,000	131,000	103,000	5,000	2,000	661,000
Cleveland........	26,000	126,000	75,000	14,000	- ---	241,000
Richmond.........	8,000	26,000	13,000	- ---	- ---	47,000
Atlanta..........	9,000	100,000	48,000	- ---	- ---	157,000
Chicago..........	253,000	76,000	36,000	5,000	- ---	370,000
St. Louis........	113,000	59,000	61,000	2,000	1,000	236,000
Minneapolis......	24,000	26,000	- ---	- ---	- ---	50,000
Kansas City......	43,000	15,000	1,000	- ---	- ---	59,000
Dallas...........	16,000	1,000	- ---	2,000	- ---	19,000
San Francisco....	164,000	85,000	60,000	- ---	- ---	309,000
	1,543,000	1,369,000	717,000	57,000	3,000	3,689,000

3,689,000 sheets at $44.75.........................$165,082.75

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total
Boston........	350,000	$5,162.50	$5,250.00	$3,500.00	$1,750.00	$15,662.50
New York......	1,190,000	17,552.50	17,850.00	11,900.00	5,950.00	53,252.50
Philadelphia..	661,000	9,749.75	9,915.00	6,610.00	3,305.00	29,579.75
Cleveland.....	241,000	3,554.75	3,615.00	2,410.00	1,205.00	10,784.75
Richmond......	47,000	693.25	705.00	470.00	235.00	2,103.25
Atlanta.......	157,000	2,315.75	2,355.00	1,570.00	785.00	7,025.75
Chicago.......	370,000	5,457.50	5,550.00	3,700.00	1,850.00	16,557.50
St. Louis.....	236,000	3,481.00	3,540.00	2,360.00	1,180.00	10,561.00
Minneapolis...	50,000	737.50	750.00	500.00	250.00	2,237.50
Kansas City...	59,000	870.25	885.00	590.00	295.00	2,640.25
Dallas........	19,000	280.25	285.00	190.00	95.00	850.25
San Francisco.	309,000	4,557.75	4,635.00	3,090.00	1,545.00	13,827.75
	3,689,000	$54,412.75	$55,335.00	$36,890.00	$18,445.00	$165,082.75

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

WASHINGTON X-1745

November 29, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1919, amounting to $98.45, as follows:

FEDERAL RESERVE NOTES, 1918

	$500	$1000	Total
New York............	1000	100	1100
Atlanta.............	100	100	200
Chicago.............	200	200	400
Minneapolis..........	100	---	100
San Francisco.......	100	300	400
	1500	700	2200

2200 sheets at $44.75......................$98.45

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets	Compensation.	Plate Printing	Materials.	Inc. Compensation.	Total
New York......	1100	$16.23	$16.50	$11.00	$5.50	$49.23
Atlanta.......	200	2.95	3.00	2.00	1.00	8.95
Chicago.......	400	5.90	6.00	4.00	2.00	17.90
Minneapolis...	100	1.47	1.50	1.00	.50	4.47
San Francisco.	400	5.90	6.00	4.00	2.00	17.90
	2200	$32.45	$33.00	$22.00	$11.00	$98.45

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

WASHINGTON X-1744

November 28, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1919, amounting to $102.93, as follows:

FEDERAL RESERVE NOTES, 1918

	$500	$1000	$5000	$10000	Total
New York........	700	400	---	---	1,100
Philadelphia....	---	200	---	---	200
Cleveland.......	300	200	100	---	600
Chicago	200	100	---	---	300
San Francisco...	---	---	---	100	100
	1,200	900	100	100	2,300

2,300 sheets at $44.75..........................$102.93

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total
New York......	1,100	$16.23	$16.50	$11.00	$5.50	$49.23
Philadelphia..	200	2.95	3.00	2.00	1.00	8.95
Cleveland.....	600	8.85	9.00	6.00	3.00	26.85
Chicago.......	300	4.43	4.50	3.00	1.50	13.43
San Francisco.	100	1.47	1.50	1.00	.50	4.47
	2,300	$33.93	$34.50	$23.00	$11.50	$102.93

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-1743

November 29, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1919, amounting to $158,862.50, as follows:

	$5	$10	$20	$50	$100	Total
Boston..........	443,000	55,000	20,000	- ---	- ---	518,000
New York........	275,000	349,000	185,000	7,000	- ---	816,000
Philadelphia....	178,000	108,000	127,000	24,000	15,000	452,000
Cleveland.......	45,000	8,000	15,000	- ---	- ---	68,000
Richmond........	100,000	1,000	2,000	2,000	- ---	105,000
Atlanta.........	92,000	25,000	91,000	- ---	- ---	208,000
Chicago.........	303,000	96,000	194,000	7,000	1,000	601,000
St. Louis.......	92,000	116,000	12,000	7,000	- ---	227,000
Minneapolis.....	27,000	24,000	2,000	- ---	1,000	54,000
Kansas City.....	178,000	23,000	1,000	- ---	- ---	202,000
Dallas..........	50,000	2,000	1,000	6,000	- ---	59,000
San Francisco...	83,000	103,000	54,000	- ---	- ---	240,000
	1,866,000	910,000	704,000	53,000	17,000	3,550,000

3,550,000 sheets at $44.75..........................$158,862.50

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total
Boston......	518,000	$7,640.50	$7,770.00	$5,180.00	$2,590.00	$23,180.50
New York....	816,000	12,036.00	12,240.00	8,160.00	4,080.00	36,516.00
Philadelphia	452,000	6,667.00	6,780.00	4,520.00	2,260.00	20,227.00
Cleveland...	68,000	1,003.00	1,020.00	680.00	340.00	3,043.00
Richmond....	105,000	1,548.75	1,575.00	1,050.00	525.00	4,698.75
Atlanta.....	208,000	3,068.00	3,120.00	2,080.00	1,040.00	9,308.00
Chicago.....	601,000	8,864.75	9,015.00	6,010.00	3,005.00	26,894.75
St. Louis...	227,000	3,348.25	3,405.00	2,270.00	1,135.00	10,158.25
Minneapolis.	54,000	796.50	810.00	540.00	270.00	2,416.50
Kansas City.	202,000	2,979.50	3,030.00	2,020.00	1,010.00	9,039.50
Dallas......	59,000	870.25	885.00	590.00	295.00	2,640.25
San Francisco	240,000	3,540.00	3,600.00	2,400.00	1,200.00	10,740.00
	3,550,000	$52,362.50	$53,250.00	$35,500.00	$17,750.00	$158,862.50

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriato be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury

FEDERAL RESERVE BOARD

WASHINGTON

December 10,1919.
X-1751

Subject: Federal Reserve Bulletin: Special rate to Examiners of State Banking Departments.

Dear Sir:-

With further reference to the Board's letter of December 22nd 1918 (X-1335, copy attached) will you please send to the Board at your early convenience a list of the State Bank Examiners to whom you desire the Federal Reserve Bulletin sent during the year 1920. The subscriptions in the names of the various State Bank Examiners expire with the December issue.

Very truly yours,

Enclosure.

Assistant Secretary.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 27, 1918.
X-1335

SUBJECT: Federal Reserve Bulletin: Special rate to Examiners of State Banking Departments.

Dear Sir:

It has been suggested that it will perhaps foster a spirit of cooperation between the different State Banking Departments and the Federal Reserve System, if the Federal Reserve Bulletin was furnished regularly to all the examiners in those departments. The Board is in accord with this view, and in order that each bank may take care of its own district, the Board will accept subscriptions from the Federal Reserve Banks at the rate of one dollar per annum for each name. In sending the names, please indicate that they are examiners, and inclose check to cover.

In the matter of divided States, the Federal Reserve agents of the respective districts should agree as to who will take care of the whole state; - this in order to avoid duplication.

The policy of stating to the banking departments that you are willing to furnish the Bulletin, or arranging it so that the request will come from the banking department, is left to your discretion.

Kindly acknowledge receipt.

Very truly yours,

Secretary.

The Chairman,
Federal Reserve Bank,

TREASURY DEPARTMENT.
WASHINGTON

X1751

December 1, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1919, amounting to $128,656.25, as follows:

Federal Reserve Notes, 1914.

	$5	$10	$20	$50	$100	Total
Boston............	337,000	353,000	3,000	3,000	- ---	696,000
New York..........	86,000	342,000	20,000	6,000	2,000	456,000
Philadelphia......	169,000	208,000	145,000	- ---	- ---	522,000
Cleveland.........	55,000	1,000	3,000	17,000	1,000	77,000
Richmond..........	4,000	2,000	81,000	- ---	- ---	87,000
Atlanta...........	8,000	3,000	8,000	- ---	------	19,000
Chicago...........	77,000	100,000	16,000	15,000	- ---	208,000
St. Louis.........	165,000	51,000	37,000	- ---	2,000	255,000
Minneapolis.......	- ---	3,000	- ---	- ---	- ---	3,000
Kansas City.......	- ---	2,000	16,000	- ---	- ---	18,000
Dallas............	- ---	- ---	5,000	- ---	- ---	5,000
San Francisco.....	242,000	150,000	137,000	- ---	- ---	529,000
	1,143,000	1,215,000	471,000	41,000	5,000	2,875,000

2,875,000 sheets at $44.75 ....$128,656.25

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total
Boston.......	696,000	$10,266.00	$10,440.00	$ 6,960.00	$3,480.00	$31,146.00
New York.....	456,000	6,726.00	6,840.00	4,560.00	2,280.00	20,406.00
Philadelphia.	522,000	7,699.50	7,830.00	5,220.00	2,610.00	23,359.50
Cleveland....	77,000	1,135.75	1,155.00	770.00	385.00	3,445.75
Richmond.....	87,000	1,283.25	1,305.00	870.00	435.00	3,893.25
Atlanta......	19,000	280.25	285.00	190.00	95.00	850.25
Chicago......	208,000	3,068.00	3,120.00	2,080.00	1,040.00	9,308.00
St. Louis....	255,000	3,761.25	3,825.00	2,550.00	1,275.00	11,411.25
Minneapolis..	3,000	44.25	45.00	30.00	15.00	135.25
Kansas City..	18,000	265.50	270.00	180.00	90.00	805.50
Dallas.......	5,000	73.75	75.00	50.00	25.00	223.75
San Francisco	529,000	7,802.75	7,935.00	5,290.00	2,645.00	23,672.75
	2,875,000	$42,406.25	$43,125.00	$28,750.00	$14,375.00	$128,656.25

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

December 11,1919.
X-1752

Subject: Questions of Law and Policy Involved in Matter of Collecting all Checks at Par.

Dear Sir:-

In view of complaints which are being made from time to time concerning the policy of Federal Reserve Banks in collecting checks on all points in their respective districts at par, there is enclosed for your information a copy of a letter, which was sent to a protesting non-member bank in one of the districts, which defines the questions of law and policy involved.

Very truly yours,

Governor.

To Chairmen and Governors of all F.R. banks.

X-1748

COPY

Dear

Receipt is acknowledged of your letter of the in which you protest against the policy which has been adopted by the Federal Reserve Banks with the approval of the Federal Reserve Board in the matter of the collection of checks which are received by Federal Reserve Banks from their member banks or from non-member banks which maintain clearing or collection accounts with them.

The Board's action is based upon its conception of the very evident purposes of the Federal Reserve Act. Section 13 of the Act begins, as follows: "Any Federal Reserve Bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal Reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills." Even though the Federal Reserve Board has heretofore ruled that the permissive "may" as used in the foregoing paragraph should not be construed to mean the mandatory "shall"nevertheless it is clear that a Federal Reserve Bank in order to do any business whatever must exercise some of the permissive powers authorized by law. It would be impossible otherwise for a Federal Reserve Bank to afford to its member banks many of the privileges which the law clearly contemplates and to which the member banks are clearly entitled. But independently of a discussion of this phase of the situation, it seems to the Board that doubts upon this question are resolved upon a consideration of the provisions of Section 16. "Every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors." In this case, the obligatory "shall"is used so that there is no option in the Federal Reserve Bank so far as checks and drafts upon its depositors are concerned. From this it may be argued that as the depositors of a Federal Reserve Bank are member banks there is no obligation upon the Federal Reserve Bank to receive on deposit at par checks on non-member banks, but even if the language of Section 13 be construed as permissive there seems to be no question that the Federal Reserve Bank has the <u>right</u> to receive on deposit from any of its member banks any checks or drafts upon whomsoever drawn, provided they are payable upon presentation. The whole purpose of the Act demands that in justice to member banks, they should exercise that right.

Section 16 further provides that the Federal Reserve Board "may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks *** and may also <u>require</u> each such bank to exercise the functions of a clearing house for its member banks." In accordance with the purpose of this paragraph, the Federal Reserve Board, with the view ultimately of establishing a universal or national system of clearing intersectional balances as well as bank checks and drafts, has established a gold settlement fund through which daily clearings between all Federal Reserve Banks are consummated and has also required each Federal Reserve Bank to exercise the functions of a clearing house for its member banks. In order, however, to make fully effective its facilities as a clearing house in accordance with the terms of this section, there does not seem to be any doubt that the Federal Reserve Bank should not only exercise its obligatory power to receive from member banks checks and drafts drawn upon other member banks, but that it should also exercise its permissive power to receive from member banks any other checks and drafts upon whomsoever drawn, provided that they are payable upon presentation.

There are no doubt many non-member banks without sufficient capitalization to make them eligible for membership in the Federal Reserve System, but provision is made for such banks in Section 13 by authorizing the Federal Reserve Banks, for purposes of exchange or of collection, to receive deposits from any non-member bank or trust company. But for the fact that the small country banks are able to have their out of town items credited at par by some city correspondent, there is no doubt that many more of them would avail themselves of the non-member collection privilege than have done so.

There is a proviso in Section 13 which allows member and non-member banks to make reasonable charges "to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks." This has been construed by the Attorney General of the United States as meaning that a Federal Reserve Bank cannot legally pay any fee to a member or non-member bank for the collection and remittance of a check. It follows, therefore, that if the Federal Reserve Banks are to give the service required of them under the provisions of Section 13 they must in cases where banks refuse to remit for their checks at par use some other means of collection no matter how expensive.

The action of the various Federal Reserve Banks in extending their par lists has met with the cordial approval of the Federal Reserve Board, which holds the view that under the terms of existing law, the Federal Reserve Banks must use every effort to collect all bank checks received from member banks at par. Several of the Federal Reserve Banks are now able to collect on all points in their respective districts at par and new additions to the other par lists are being made every day. The Board sees no objection to one bank charging another bank or a firm or individual the full amount provided in Section 13 of the Federal Reserve Act (10 cents per $100) and has not undertaken to modify these charges, but the Act expressly provides that no such charge shall be made against the Federal Reserve Banks.

It is the Board's duty to see that the law is administered fairly and without discrimination and that it applies to all banks alike, and it is making an earnest endeavor to carry out the laws as construed by the highest legal authority of the administrative branch of the Government.

FEDERAL RESERVE BOARD X-1753

STATEMENT FOR THE PRESS

Release morning papers,
December 12,1919.

The Federal Reserve Board has advised all Federal Reserve Banks which have not yet begun their building operations to perfect their plans in detail, but to postpone for the present letting contracts for construction. A careful survey of building conditions has demonstrated the fact that building materials and construction costs have recently advanced to too high a point to justify the Board in authorizing building at this time. It is impossible to say when the building operations of the Federal Reserve Banks will be begun as this is a matter which must be determined by developments in building conditions.

The Board has consistently advised that capital, credit, labor and material be applied as far as possible to purposes of immediate urgency. While the Federal Reserve Banks are in need of permanent quarters, they can probably manage to get along with their present accommodations for sometime longer. It is the view of the Board, therefore, that it would be unwise in the present circumstances to have the banks add to the competition for labor and material.

Washington December 11,1919.

FEDERAL RESERVE BOARD

WASHINGTON

December 15, 1919.
X-1754

Subject: Acceptances of the Continental Guaranty Corporation Banks.

Dear Sir:-

The Federal Reserve Board has been advised that the Continental Guaranty Corporation of New York has widely circulated circulars and forms relating to a plan which it has devised to finance the purchase of automobiles by local dealers from manufacturers, and the Board has received from several of the Federal Reserve Banks inquiries not only as to the nature and scope of this plan but also as to whether or not paper drawn and accepted thereunder is eligible for rediscount as a bankers' acceptance.

The Board is of the opinion that technically the drafts described, when accepted by the Continental Guaranty Corporation, come within its definition of a bankers' acceptance set forth in its regulations and as such are technically eligible for discount provided that they comply in other respects with the terms of the law and the regulations of the Federal Reserve Board.

The Board has been advised further that its letter of July 22, 1919, addressed to the Continental Guaranty Corporation, stating that its acceptances of the kinds described would be eligible for discount provided, of course, that they comply with the various terms of the Federal Reserve Act and the regulations of the Board, has been widely distributed with its other circulars and forms among banks and bankers throughout the country. Because of the very general misunderstanding which evidently has resulted, the Board wishes to state that this letter of July 22, 1919, was not in fact and should not in any way be construed to be an expression of its approval of the merits or desirability of the paper as an investment either by the reserve banks or their member banks, and the Board regrets that it has been circularized in such a manner as to give undue advertising value to the plan of the Continental Guaranty Corporation which it accompanies.

Federal Reserve Banks are, of course, aware that it is their right and duty carefully to consider the merits or bankable risk attached to any paper presented either for rediscount or purchase and in their own discretion to accept or refuse the paper on the basis of that consideration. The Board believes, however, that many member banks may fail to appreciate that technical eligibility does not of itself imply desirability and you are therefore requested, whenever opportunities afford themselves, carefully to indicate this distinction to member banks interested with a view of correcting what might otherwise be a wrong impression of the purpose and effect of the Board's letter referred to above.

Very truly yours,

Governor.

Letter to Chairmen and Governors of all F.R. Banks.

TREASURY DEPARTMENT
WASHINGTON

X-1755
December 12, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period November 1 to November 30, 1919, amounting to $157,922.75, as follows:

	Federal Reserve Notes, 1914.					
	$5	$10	$20	$50	$100	Total
Boston............	30,000	202,000	143,000	4,000	- ---	379,000
New York..........	216,000	194,000	124,000	- ---	6,000	540,000
Philadelphia......	163,000	204,000	129,000	- ---	- ---	496,000
Cleveland.........	106,000	93,000	71,000	3,000	1,000	274,000
Richmond..........	83,000	115,000	43,000	1,000	- ---	242,000
Atlanta...........	64,000	88,000	59,000	- ---	- ---	211,000
Chicago...........	164,000	88,000	89,000	10,000	- ---	351,000
St. Louis.........	290,000	58,000	81,000	- ---	- ---	429,000
Minneapolis.......	128,000	- ---	- ---	- ---	- ---	128,000
Kansas City.......	26,000	- ---	6,000	- ---	- ---	32,000
Dallas............	6,000	74,000	117,000	1,000	- ---	198,000
San Francisco.....	83,000	66,000	100,000	- ---	- ---	249,000
	1,359,000	1,182,000	962,000	19,000	7,000	3,529,000

3,529,000 sheets at $44.75........................$157,922.75.

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials.	Inc. Compensation.	Total.
Boston.......	379,000	$5,590.25	$5,685.00	$3,790.00	$1,895.00	$16,960.25
New York.....	540,000	7,965.00	8,100.00	5,400.00	2,700.00	24,165.00
Philadelphia.	496,000	7,316.00	7,440.00	4,960.00	2,480.00	22,196.00
Cleveland....	274,000	4,041.50	4,110.00	2,740.00	1,370.00	12,261.50
Richmond.....	242,000	3,569.50	3,630.00	2,420.00	1,210.00	10,829.50
Atlanta......	211,000	3,112.25	3,165.00	2,110.00	1,055.00	9,442.25
Chicago......	351,000	5,177.25	5,265.00	3,510.00	1,755.00	15,707.25
St. Louis....	429,000	6,327.75	6,435.00	4,290.00	2,145.00	19,197.75
Minneapolis..	128,000	1,888.00	1,920.00	1,280.00	640.00	5,728.00
Kansas City..	32,000	472.00	480.00	320.00	160.00	1,432.00
Dallas.......	198,000	2,920.50	2,970.00	1,980.00	990.00	8,860.50
San Francisco	249,000	3,672.75	3,735.00	2,490.00	1,245.00	11,142.75
	3,529,000	$52,052.75	$52,935.00	$35,290.00	$17,645.00	$157,922.75

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

X-1756

WASHINGTON

December 12, 1919.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period November 1 to November 30, 1919, amounting to $44.75, as follows:

Federal Reserve Notes, 1918

	$500	$1000	Total
Boston....................	200	---	200
Cleveland.................	---	100	100
Richmond..................	---	100	100
Chicago...................	200	200	400
Minneapolis...............	100	100	260
	500	500	1,000

1,000 sheets at $44.75................$44.75

The charges against the several Federal Reserve Banks are as follows:

		Bureau appropriations				
	Sheets.	Compen-sation.	Plate Printing.	Materials.	Inc. Com-pensation.	Total.
Boston.......	200	$2.95	$3.00	$2.00	$1.00	$8.95
Cleveland....	100	1.48	1.50	1.00	.50	4.48
Richmond.....	100	1.47	1.50	1.00	.50	4.47
Chicago......	400	5.90	6.00	4.00	2.00	17.90
Minneapolis..	200	2.95	3.00	2.00	1.00	8.95
	1,000	$14.75	$15.00	$10.00	$5.00	$44.75

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

R. C. Leffingwell,

Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

TELEGRAM X-1757

CONFIRMATION

December 16, 1919.

Federal Reserve Bank, Boston
New York
Philadelphia
Cleveland
Richmond
Atlanta
Chicago
St. Louis
Minneapolis
Kansas City
Dallas
San Francisco

Referring to Board's telegram December 12th, 1918, Mail Insurance Office advises today that they have arranged with Post Office Department that beginning January 15th, 1920, currency in denominations of one dollar, two dollars and five dollars only may be shipped by Federal Reserve Banks and their branches to correspondents and to Washington by registered mail at parcel post rates. This does not, however, apply to shipments made by member banks to Federal Reserve Banks and branches. Prior to January 15th next Mail Insurance Office representative will personally call on you to arrange details for insurance in accordance with Board's telegram December 12th, 1918, and your reply thereto.

HARDING.

FEDERAL RESERVE BOARD

WASHINGTON

December 17,1919.
X-1758

Subject: Construction of Term "non-essential".

Dear Sir:-

There is enclosed for your information a copy of a circular which has been sent to all banks and trust companies in Federal Reserve District Number 9 by the Governor of the Federal Reserve Bank of Minneapolis. The Board feels that this is a timely circular and that it is a good plan to explain not only to the member banks but to the non-member banks the policies of the Federal Reserve System.

The Board would not, however, go so far as to say that "borrowing for non-essentials should be vigorously discouraged." The term "non-essential" does not have the same significance now as it did during the war. Were the Federal Reserve Banks to undertake to pass judgment upon the essential need for a given credit regardless of the eligibility of the paper offered, they would find it necessary, if they wish to avoid the charge of being unduly censorious and dictatorial, to exercise a very delicate discretion in their construction of the term "non-essential".

Very truly yours,

Enclosure.

Governor.

Letter to Chairmen of all F.R. Banks <u>except</u> Minneapolis

FEDERAL RESERVE BANK OF MINNEAPOLIS X-1758 a

TO ALL BANKS & TRUST COMPANIES
IN FEDERAL RESERVE DISTRICT NO. 9:-

The advance in the discount rates of the Federal Reserve Bank of Minneapolis is another warning to bankers and the general public that the resources of the Federal Reserve System are not unlimited. It is my sincere hope that the significance of this action will be understood and that it will not be necessary to again advance the rates at a later date.

The first warning was issued in October, 1915, and has been repeated at various intervals since that date, but the action taken by the Federal Reserve Bank has not been given sufficient attention or possibly it has not been properly understood.

The resources of the Federal Reserve System were intended for the benefit of commerce and industry.. It was not the purpose that they be used to stimulate the investment market or to encourage and support speculative movements. To this date commerce and industry have received extensive benefits, both direct and indirect, from the Federal Reserve Banks, which will, of course, continue their established policy and take care of all the legitimate and reasonable requirements of business, including agriculture.

It is quite evident, that through the extravagances of individuals and the indiscriminate extension of credits by certain banks for investments and speculative purposes, the reserves held by the Federal Reserve Banks have been used through an indirect process for purposes other than those intended and authorized by law. The extension of credit for speculative purposes is not confined to stocks and bonds alone, but substantial advances have been made to encourage the movement of land, and for speculation in commodities. The Federal Reserve Bank of Minneapolis, in common with other Reserve Banks, has used every precaution to eliminate such use of its facilities, but indirectly these credits have been extended, with the result than an unwarranted over-extension of credit exists at this time over the country as a whole. If this condition is permitted to continue it will in time work a severe hardship upon everyone.

Experienced bankers are cognizant of the real situation and are confining their advances in accordance with sound and prudent banking judgment. Certain banks have not exercised proper discrimination and are accumulating loans that do not help the general situation. Such banks are depending on sources other than the Federal Reserve Bank for assistance in the event of an emergency. Such assistance is, of course, secured indirectly through the Federal Reserve Bank and this warning is issued particularly to banks that are following this course as a reminder to them of the unwisdom of depending upon the Federal Reserve Bank for indirect support that it would not be permitted by law to extend directly to its own members.

The Federal Reserve Bank will thoroughly investigate all applications from member banks. If the proceeds of such rediscounts are to be used, either directly or indirectly, for purposes other than those intended by law, such applications will not receive favorable action.

The Federal Reserve Bank is compelled to consider not alone whether paper offered for rediscount is eligible, but whether the purposes behind the application for rediscount are in conformity with the law and with its publicly announced policy. It is very desirable that all banks, both member and nonmember, carefully analyze their loans and discriminate in the extension of credit, discouraging borrowing for non-essentials and requesting their customers to clean up their old indebtedness before incurring new obligations. Many loans which are not in themselves objectionable will be found upon analysis to be unnecessary at this time, and while the strain upon credit continues, borrowing for such non-essentials should be vigorously discouraged.

A failure to follow this policy is very likely to result in placing the bank involved in the embarrassing position of being compelled to explain to borrowers who desire funds for necessary commercial and industrial purposes that it is unable to afford them reasonable support because of the fact that its deposits have been loaned in too large a measure for speculative purposes.

The rigid restriction of loans to those which are actually necessary in order to properly support commercial business, industry and agriculture of the Ninth District, can in no wise harm any except those who by reckless expenditure of both their funds and their credit, have encouraged inflation. Such a policy is essential and necessary if the present strain on credit is to be checked before it results in wide-spread injury to all business and to individuals.

The Federal Reserve Bank is convinced of the absolute necessity of prudence, caution and wise discrimination in both the extension and the use of credit.

Yours respectfully,

(signed) R.A. YOUNG.

Governor.

December 13, 1919.
Circular No. 189

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS. X-1759

Release Morning Papers,
December 18,1919.

The Federal Reserve Board has authorized and directed the Federal Reserve Bank of Kansas City to establish a branch office at Oklahoma City in order, particularly, to expedite shipments of currency to and from member banks in the State of Oklahoma and to provide better facilities for intra-state clearing of checks. As set forth in the Board's preliminary statement of November 3 the discount facilities which have been accorded by the Federal Reserve Bank of Kansas City are regarded as ample.

The Branch will be operated in accordance with the provisions of Section 3 of the Federal Reserve Act, under by-laws to be framed by the directors of the Federal Reserve Bank of Kansas City and approved by the Federal Reserve Board. There will be five directors, three of whom will be appointed by the Federal Reserve Bank of Kansas City and two by the Federal Reserve Board. The Board has recommended to the Federal Reserve Bank of Kansas City that the by-laws assign as territory for the Oklahoma City Branch that portion of the State of Oklahoma which is not included in the Eleventh Federal Reserve District. An outline of the powers and functions to be exercised by the branch as recommended by the Board is, as follows:

The Branch bank will receive deposits from member banks but will carry no deposit accounts. All amounts received on deposit will be transmitted daily, by telegraph or otherwise, to the Federal Reserve Bank of Kansas City for credit to the accounts of the depositing banks, and each member bank in the territory assigned to the Branch, wherever located, may, at its option, make remittances of currency and checks direct to the Federal Reserve Bank of Kansas City. The Branch will carry no Government deposits, but will redeem Treasury certificates, pay Government checks, and will close out balances daily with the head office. The Branch will carry no earning assets; applications for loans or discounts from member banks and offers for sale of mail transfers, bankers' acceptances and bills of exchange eligible for purchase by Federal Reserve Banks will be transmitted to the Federal Reserve Bank of Kansas City for final action. Immediate credit, however, may be given in cases where it becomes necessary for member banks to rediscount in order to meet clearing house debit balances, unexpected deficiencies in reserves, and any other case where quick arrangements are necessary, all actual rediscounting operations, however, to be made at the head office, interest being charged from the date the notes were received by the Branch. In cases where notes are secured by United States obligations, the Branch may, by authority of the Federal Reserve Bank of Kansas City, hold the collateral and forward the notes to the parent bank with trust receipts showing the amount and nature of collateral held. Banks in the Branch bank territory may deal directly with the parent bank. The principal functions to be exercised by the Branch will be the clearing and collection of checks and the handling of shipments of currency to and from member banks in its territory. A private wire will be installed between Kansas City and Oklahoma City in order that the Branch may telegraph daily to the parent bank the amounts of all items received for immediate credit or immediate debit to members or other Federal Reserve Banks, also amounts of currency deposited and the details of other transactions.

This plan is the same as the one which governs the operations of the branch banks at Cincinnati, Pittsburg, Buffalo and other cities. The Board has made a thorough study of the briefs and arguments submitted by representatives of Oklahoma City and Tulsa, and has taken a poll of the member banks in the State of Oklahoma outside of the two cities applying for the branch, the result of which shows a decided preference for Oklahoma City, both as to the number of banks and as to banking resources involved. It was proved, however, beyond question that banks in eastern Oklahoma have large volume of items which cannot be collected through Oklahoma City without involving considerable loss of time, and owing to railroad schedules the same condition applies to some banks in the western part of the State.

Under the plan adopted additional facilities are given without affecting the business of any member bank and without forcing collections into artificial channels. The Board reserves the right to authorize the discontinuance of the Branch at any time if its operation is found unsatisfactory.

December 17, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

December 18, 1919.
X-1760

Subject: Right of a Federal Reserve Bank to send Checks, which it has received for collection, direct to drawee bank.

Dear Sir:-

The question was raised by Governor Strong of the Federal Reserve Bank of New York some time ago as to the liability which may be incurred by Federal Reserve Banks in sending checks for collection direct to the bank upon which drawn. The matter was referred to the Board's General Counsel, who has submitted a memorandum, a copy of whihh is transmitted herewith.

It is suggested that this question be discussed by your directors and referred, if they deem it necessary, to your own counsel. The Board would like to be advised of any conclusions reached as to the proper course to be pursued.

Very truly yours,

Enclosure.

Governor.

Letter to Governors and Chairmen of all F.R. Banks.

Subject: Right of a Federal Reserve Bank to send checks which it has received for collection direct to drawee bank.

The question has been raised whether a Federal Reserve Bank may properly and without risk of loss forward checks which it has received for collection direct to the drawee bank.

The well accepted principle of law relating to this specific question is that a bank which sends a check which it has received for collection direct to the drawee bank, without express authority from the principal for whom it is making the collection, becomes liable for any loss resulting because of the fact that the check was sent direct to the drawee bank. Even a general usage or custom of making collections in this manner does not relieve the collecting bank of responsibility under the decisions of a majority of the courts.

The question at issue, however, is not whether a Federal Reserve bank may properly send an item direct to the drawee bank without authority of its principal, but whether the general provisions contained in the collection circular of the Federal Reserve Bank of New York may be construed to be sufficient authority to protect the Federal Reserve Bank in the event of any loss caused by the fact that the check was forwarded direct to the drawee bank.

Circular No. 103 of the Federal Reserve Bank of New York dated June 1, 1918, provides that -

> "Every member bank sending items to us after the inauguration of this system will be understood to have agreed to the terms and conditions set forth in this circular and to have thereby specifically agreed that in receiving such items the Federal Reserve Bank of New York will act only as the collection agent of the sending bank, will assume no responsibility other than due diligence and care in forwarding such items promptly, and will be authorized to send such items for payment direct to the bank on which they are drawn or to another agent for collection, at its discretion."

Although a general agreement between a collecting bank and its customer that the collecting bank will not be liable for the negligence or failure <u>of the agent which it selects</u> cannot be construed to authorize the collecting bank to send the check <u>direct</u> to the <u>drawee</u> bank (See Minn. Sash & Door Co., v. Metropolitan Bank, 76 Minn. 136) nevertheless an agreement specifically authorizing the collecting bank to send the item direct to the drawee bank is generally understood to be valid and is sufficient to relieve the collecting bank from any liability on account of a loss resulting from the fact that the item was sent direct to the drawee bank. (See Chicago-First National Bank v. Citizens Savings Bank, 123 Mich. 336).

The question presents itself, therefore, whether the general condition in the terms of the New York circular quoted above can be considered a specific agreement between the Federal Reserve Bank and its customers. There is no doubt that the terms of the circular itself are sufficiently specific in the circumstances to protect the New York Bank, provided, that the customer of the bank may be said to have notice of the provisions of that circular and to have assented thereto. It is probable that a court would protect the collecting reserve bank in such a case on the theory that the circular having been sent to the member bank, and the member bank having forwarded items in accordance with the terms of that circular, the member bank may be presumed to have assented to the terms of the agreement. But there may be some difficulty in establishing the fact that the member bank actually had notice of the circular and for that reason and in order to remove any possible doubt I agree with the suggestion which has been made that when the Reserve Bank issues its new circular outlining its collection facilities, particular attention be directed to the clause giving the Reserve Bank authority to forward items direct to the drawee bank, and that the member bank acknowledge receipt of the circular containing that provision.

In this connection, the Federal Reserve Bank of New York should, of course, make sure that member banks of other districts which forward items direct to the Federal Reserve Bank for collection agree to the terms of the circular issued by the Federal Reserve Bank for the principles discussed above apply with equal force to member banks outside the New York District which are using the New York Bank as a collecting agency.

There is also presented the question whether the Federal Reserve Bank would be liable even in a case where there is a specific agreement authorizing it to forward checks to the drawee bank if, as a matter of fact, the Federal Reserve Bank had actual knowledge of facts which would lead it to believe that there would be a loss resulting if the checks were forwarded direct. I have been unable to find any cases discussing this particular phase of the question but it would appear reasonable to assume that the agreement would protect the collecting bank unless it had actual knowledge of facts such as to make it a breach of good faith to forward the checks direct. This, however, is a question which would have to be decided by the courts.

Very truly yours,

(Signed) GEORGE L. HARRISON.

General Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

December 18, 1919.
X-1764

Subject: Usages of Trade in Foreign Countries.

Dear Sirs:-

Section 13 of the Federal Reserve Act provides that "any member bank may accept drafts or bills of exchange drawn upon it having not more than three months sight to run, exclusive of days of grace, drawn, under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies or insular possessions."

Under this authority the Board has from time to time determined that the usages of trade in the countries, dependencies or insular possessions listed below require the granting of acceptance facilities for the purpose of creating dollar exchange.

The Board is now engaged in revising the list.

As an institution familiar with the usages of trade in the respective countries, dependencies and possessions, listed below, the Federal Reserve Board would be glad to receive from you such information as may be in your possession as to the usages of trade in each such country, so far as such usages may affect the rulings of the Board in respect of drafts drawn for the purpose of furnishing dollar exchange. The Board is under the impression that in some of these countries the usages of trade do not now require the facilities authorized by Section 13 for the purpose of furnishing dollar exchange, and that the Regulations of the Board in this respect require careful revision in order that bills drawn under the said provisions of Section 13 shall not in effect become mere finance bills.

As bearing on the purpose of the quoted provisions of Section 13, your attention is directed to pages 665 and 666 of the Federal Reserve Bulletin of December 1, 1916, from which the following quotation is made:

> "The purpose of this Act and the regulation made pursuant thereto was to enable the American banks to provide dollar exchange in countries where the check is not the current means of remittance in payment of foreign debts, but where the three months' bankers' draft is generally used for that purpose.
> " * * * * * * The Board is informed that the bankers' custom of selling three months' drafts in preference to checks originated in countries where the mail connections were irregular and the foreign exchange market was a limited one, and where it would have been difficult for the drawing banker to be certain that he could find a cover against the checks drawn by him in time to forward it by the same mail, whereas, in drawing a three months' draft he would feel assured of being able to forward remittances before his obligation fell due."

The following is a complete list of all the countries which have been designated by the Board as countries in which banks or bankers may draw drafts or bills of exchange on member banks approved by the Board for the purpose of furnishing dollar exchange:

SOUTH AMERICA

Argentina	Colombia
Bolivia	Ecuador
Brazil	Paraguay
Chile	British Guiana
Peru	Dutch Guiana
Venezuela	French Guiana

Uruguay

CENTRAL AMERICA

Costa Rica	British Honduras
Guatemala	Nicaragua
Honduras	Panama

San Salvador

Porto Rico	Trinidad
Santo Domingo	Cuba

I am,

Very truly yours,

Governor.

Letter sent to list of banks engaged in foreign business.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

X-1765

December 18, 1919.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JANUARY 1 TO JUNE 30, 1920.

Dear Sir:-

There is inclosed herewith for your information and attention copy of a resolution adopted by the Federal Reserve Board at a meeting held on December 17, 1919, levying an assessment upon the several Federal Reserve Banks of an amount equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital stock and surplus of such banks to defray the estimated general expenses of the Federal Reserve Board from January 1 to June 30, 1920. This assessment does not include the cost of engraving and printing Federal Reserve notes.

There is also inclosed a statement showing the basis upon which the assessment is levied.

The assessment should be computed upon your paid-in capital and surplus as of close of business December 31, 1919, that is, upon capital paid-in as shown by books on that date, and surplus after adjustment in accordance with circular letter X-1741, dated December 3, 1919.

I have the honor to request that you bring this matter to the early attention of the Board of Directors of your bank, and deposit one half of the amount of your assessment in the General Account, Treasurer, U. S., on your books on January 1, 1920, and one-half on March 1, 1920, in each instance issuing a C/d on Form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund," assessment for general expenses.

Kindly send duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Inclosures.

Letter sent to Chairman of Federal Reserve Banks.

X-1761

ESTIMATE FOR JANUARY, 1920, ASSESSMENT

Average monthly encumbrance for period July 1, 1919, to Dec. 31, 1919.	$48,568.59
Estimated monthly requirements, Jan. to June, 1920, inclusive	87,360.00
Estimated monthly increase.	38,792.00
Estimated requirements, January to June, 1920, inclusive	525,000.00
Estimated unencumbered balance Jan. 1, 1919.	10,000.00
	515,000.00
Estimated paid-in capital and surplus of Federal Reserve Banks, as of close of business Dec. 31, 1919.	206,000,000.00
An assessment of twenty-five hundredths of one per cent (.0025) will produce.	515,000.00

I have the honor to recommend, therefore, that an assessment of twenty-five hundredths of one per cent (.0025) be levied.

W. M. Imlay

Fiscal Agent.

X-1763

RESOLUTION LEVYING ASSESSMENT

Whereas, under section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal Reserve Banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts, and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital stock and surplus of the Federal Reserve Banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal Reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal Reserve Banks of an amount equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital and surplus of such banks, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board receipts for payments made. Such assessment will be collected in two installments of one-half each; the first installment to be paid on January 1, 1920, and the second half on March 1, 1920.

STATEMENT OF EXPENDITURES AND COMMITMENTS AS A BASIS OF ESTIMATE.

	Monthly average July 1 to Dec. 31, 1919.	Estimate for Dec. 1919.	Estimated monthly requirements, Jan. 1 to June 30, 1920.
PERSONAL SERVICES:			
Board and its clerks	$6,641.14	$7,210.00	$7,500.00
Secretary's office	4,242.59	4,615.00	5,400.00
Counsel's office	2,591.48	2,566.67	2,850.00
Division of Operations and Examination	6,188.70	6,501.66	7,800.00
Division of Reports and Statistics . .	5,161.40	5,340.03	6,300.00
Division of Analysis and Research. . .	1,539.59	1,891.09	2,100.00
Division of Architecture	788.89	888.89	900.00
Division of Issue.	5,417.66	6,276.66	6,500.00
Messengers	863.74	948.34	1,000.00
Charwomen.	96.00	96.00	100.00
National Bank Redemption Agency. . . . (Estimate based on 100 clerks) . . .	2,577.69	6,348.95	8,700.00
Board's Redemption Division (Estimate based on 100 clerks) . . .	1,314.89	6,499.75	8,700.00
Contingent			2,000.00
	37,423.77	49,183.04	59,850.00
NONPERSONAL SERVICES:			
Transportation and subsistence	3,124.57	3,061.25	3,500.00
Communication service (including telephone, telegraph and postage). . . .	508.09	508.66	575.00
Printing and binding, etc.	2,682.98	2,500.00	3,500.00
Contract repairs	34.73	30.00	50.00
Electricity (light and power).	35.20	35.20	40.00
Steam (heat)	15.45	30.90	20.00
Other nonpersonal services	340.10	350.60	350.00
Supplies (including stationery, periodicals and other)	794.81	752.46	1,025.00
Equipment:			
Furniture and Office	1,079.30	1,836.00	1,200.00
Books	46.82	50.00	50.00
Gold Settlement Fund (including salaries)	933.92	954.14	1,200.00
Rent	802.06	814.56	1,000.00
Foreign Exchange (including salaries).	746.79	--- --	- --- --
Contingencies (including total of $75,000 for erection of a building for experimenting with and testing vault construction and material)			15,000.00
TOTAL.	$11,144.82	10,923.77	27,510.00
GRAND TOTAL.	48,568.59	60,106.81	87,360.00
Total expenditures and commitments July 1 to December 31, 1919.			291,411.54
Total estimate for next six months			525,000.00

FEDERAL RESERVE BOARD

WASHINGTON

December 20,1919.
X-1766

Subject: Method of Determining Required Reserves.

Dear Sir:-

You are advised that the Federal Reserve Board has ruled on advice of Counsel that there is no warrant in law for the Federal Reserve Banks in making any deductions from their gross deposits in determining the amount of the reserves required to be carried under the terms of Section 16 of the Federal Reserve Act.

The Board does not, of course, construe the law as requiring that a reserve be carried against transit items or other deferred availability credits which represent deposits not immediately available. It rules therefore that the required reserves are to be based only upon those deposits which are immediately available. A copy of Counsel's opinion on this subject is transmitted herewith for your information, and the Federal Reserve Banks are advised that they should apply the new method of determining the reserves on and after January 2, 1920.

Very truly yours,

Enclosure.

Governor.

Letter to Governors and Chairmen of all F.R. Banks.

X-1766 a

Subject: Deductions from Gross Deposits of Federal Reserve Banks for the Purpose of Determining the Amount of required Reserve.

"This office has been asked for an opinion on the question whether a Federal Reserve Bank may, for the purpose of determining the amount of its required reserve, deduct from its gross deposits the amounts 'due from foreign governments' and 'due from foreign banks'. The Statistical Division is preparing a new form of balance sheet for Federal Reserve Banks and a determination of this question is necessary before that form is finally sent to the printer.

"It appears that at the present time Federal Reserve Banks are deducting from their gross deposits the following items:

DEDUCTIONS FROM GROSS DEPOSITS:
Branches or Head Office,
Due from foreign governments,
Due from foreign banks

Uncollected items -
National bank notes
Bank notes of other F.R. banks
F.R. notes of other F.R. banks
Unassorted currency
Transit items
Checks and other cash items,
Exchanges for Clearing House
Domestic transfers purchased.

"The question presents itself not only as to the right of a Federal Reserve Bank to deduct the balances due from foreign governments and from foreign banks, but also as to its right to deduct any of the items described above.

"Under the terms of Section 16 of the Federal Reserve Act, it is provided that

> "'Every Federal Reserve Bank shall maintain reserves in gold or lawful money of not less than thirty five per centum against its deposits."

There does not appear to be in the law, any provision express or implied, which can be construed as an authority to make any deduction from its deposits for the purpose of determining the amount of the reserves required to be carried under the terms of Section 16. In the case of national banks and other member banks, it is provided in Section 19 that

"In estimating the balances required by this Act the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal Reserve Banks shall be determined."

The Federal Reserve Board in construing this particular provision of Section 19 has heretofore determined that (a) exchanges for clearing house; (b) checks on other banks in the same place; and (c) items with Federal Reserve Banks in process of collection are to be considered as balances due from other banks in estimating the required reserve balance of member banks. These deductions, however, have been authorized by the Federal Reserve Board solely because of that paragraph of Section 19 quoted above. There is no other provision in the law justifying them.

"In considering the question of the amount of reserve which must be maintained by a Federal Reserve Bank against its deposits, it is evident that Section 16 contains no such provision as that paragraph of Section 19, which relates solely to the reserves of member banks and which the Board now considers controlling in determining what are the permissible deductions by member banks. If, as the Board has ruled, a national bank cannot be permitted to deduct cash on hand or balances due from foreign banks or from foreign governments, Federal Reserve Banks certainly should not be permitted to do so. With reference to the other deductions which Federal Reserve Banks now make from their gross deposits, including national bank notes, bank notes of other Federal Reserve Banks, Federal reserve notes of other Federal Reserve Banks, unassorted currency, transit items, checks and other cash items, exchanges for clearing house and domestic transfers purchased, it is believed that there is no more authority in law than in the case of cash on hand or of balances due from foreign banks and balances due from foreign governments. Even though it may be contended with some force that as a matter of principle deductions of the uncollected items specified should be permitted nevertheless that is a mooted question and whether right or wrong cannot of itself be determinative of the proper construction of an existing statute. It might be proper to place such an argument before Congress with the purpose of procuring an amendment to the law but there is not in the Federal Reserve Act as it reads at the present time any express or implied authority to make such deductions and in the opinion of this office none should be permitted.

"On the basis of the unconsolidated statement of all Federal Reserve Banks for November 28, 1919, it appears that their total gross deposits including both immediate and deferred availability credits were $2,902,825,000. The total deductions permitted that week were $1,013,426,000, that is 29.08% of the gross deposits. But it should be noticed that of the total deductions allowed $875,562,000 were 'transit items', that is, approximately 80% of the total deductions. These transit items represent an equivalent amount of deposits but deposits which are not immediately available. If, therefore, instead of basing the required reserve upon the amount of the total gross deposits, (including both immediate and deferred availability credits) the required reserve were to be based upon only those deposits which are immediately available, as I think it should be, the total gross deposits subject to reserve would be reduced by the amount of the transit items which as previously stated, form approximately 80% of the present total deductions. If this were done the reserve percentage would vary but little from the percentage obtained under the present rule and the method of calculation would be strictly in accordance with both the spirit and the letter of the law. It is evident not only that it was not intended by Congress that deductions from gross deposits should be made by Federal Reserve Banks in determining the amount of required reserve but also that it was not contemplated that items received for collection and deferred availability credit would be included in the deposits against which reserve must be carried. It is believed that objections on both of these points would be overcome if reserves are calculated in the manner suggested above.

"On the basis of the figures as of November 28th, the reserve percentage of the Federal Reserve Banks was 45.5. This percentage was based upon the total gross deposits (including both immediate and deferred availability credits) less a deduction of all those items defined in the beginning of this memorandum. Had the reserve percentage on November 28th been estimated upon the basis of only those deposits which are immediately available, allowing no deduction whatsoever, the percentage would have been 44.1, a difference of only 1½%.

"It may be contended that this difference is a great difference when reserves of the Federal Reserve Banks are as near the minimum as they are at the present time and for that reason it may be felt that this is an inopportune moment at which to institute a change in the method of calculating required reserves, but it is the belief of this office that such a change should be made and as soon as it is possible to do so without causing any considerable disturbance through even a slight lowering of the reserve percentage of the Federal Reserve Banks. In any event it is believed that the proper method of calculating the reserves in accordance with the terms of the law as it now reads is that outlined above, that is, to estimate the required reserve on the basis of those deposits which are immediately available and to permit no deductions whatsoever.

Respectfully,

(Signed) GEORGE L. HARRISON.
General Counsel."

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1919.
X-1767

Subject: Reserve for Federal Reserve Board Assessment.

Dear Sir:-

It is assumed that your bank has received notice from the Fiscal Agent of the Federal Reserve Board of the amount of the assessment against it to meet its proportion of the Board's expenses for the six months period January 1st to June 30, 1920.

You are authorized and requested to charge this amount out of your undivided profits on December 31st and to carry it as "Reserve for Federal Reserve Board Assessment". Debits will be made against this reserve account and funds transmitted to the Board as called for.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1919.
X-1768

Subject: Reports of Federal Reserve Agents on Applications to organize National Banks.

Dear Sir:-

Without making any suggestion as to the course you should pursue but merely for your information, the Board transmits the text of a communication it has received from the Comptroller of the Currency, as follows:

> "In considering an application to organize a National Bank, it is customary for this office to obtain, in addition to the reports of the Chief National Bank Examiner and the field examiner, recommendations from the Congressman for the district, the Federal Reserve Agent of the Reserve Bank of the district, and the Commissioner of Banking of the State, and also from other available sources.
>
> This office finds that the Federal Reserve Agent in many cases communicates with the Commissioner of Banking for the district, and his report is more or less a reflection of the Commissioner's views.
>
> Inasmuch as this office gets direct a report from the Commissioner of Banking I am wondering if it is worth while for the Federal Reserve Agent to write to the Commissioner for a recommendation, thus duplicating the report which this office gets direct?
>
> Would it not be well for the Federal Reserve Agent to base his information upon authorities other than those which are communicated with direct by this office?"

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1919.
X-1769

Subject: Estimating Population of Towns and Cities in which State Banks applying for membership are located.

Dear Sir:-

In connection with your campaign for State Bank memberships, it may be of interest to you to know that the Federal Reserve Board, in considering applications from State Banks for membership in the Federal Reserve System pursuant to the provisions of Section 9 of the Federal Reserve Act, has decided to accept estimates of the population of the towns or cities in which the applying banks are located as shown by the last official census, whether national, State, county or municipal, unless there is good reason to believe that the figures are incorrect, in which event an estimate of the population will be made through means of local data supported by affidavits, as heretofore.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD X-1771

STATEMENT FOR THE PRESS

Release for morning papers,
Dec. 23, 1919.

The Federal Reserve Board today announced the appointment of the following directors of the Los Angeles Branch of the Federal Reserve Bank of San Francisco:

Mr. I.B. Newton

Mr. H.M. Robinson

Mr. J.F. Sartori

Mr. Stoddard Jess

Mr. Ira Clerk

The first two gentlemen have been appointed by the Federal Reserve Board, while the last three are the appointees of the Federal Reserve Bank of San Francisco.

Mr. I.B. Newton, prominent merchant of Southern California, for many years was a member of the firm of Harper & Reynolds Co., wholesale hardware dealers of Los Angeles. He recently retired from active business. During the war he served on the Los Angeles sub-committee of the Twelfth District Committee on Capital Issues and is a director of the Farmers & Merchants National Bank of Los Angeles.

Mr. Henry M. Robinson is a well-known citizen of Southern California and retired from active business. War activities brought him to Washington when he served on the Shipping Board, at the end of the war going to Paris as one of the Economics Committee of Five assisting the American Peace Delegation. He was appointed by the President as a member of the Second Industrial Conference and, more recently, as a member, representing the public, of the commission to investigate wages and working conditions in the coal industry, provided for in the strike settlement agreement.

Mr. J.F. Sartori is President of the Security Trust and Savings Bank and President of the Security National Bank, both of Los Angeles.

Mr. Stoddard Jess is President of the First National Bank of Los Angeles.

Mr. Ira Clerk is Assistant Deputy Governor of the Federal Reserve Bank of SanFrancisco, and has been appointed Manager of the Los Angeles Branch.

December 22,1919.

FEDERAL RESERVE BOARD

WASHINGTON

December 23,1919.

X-1773

Subject: Shipment of Currency by Registered Mail at Parcel Post Rates.

Dear Sir:-

Referring to the Board's telegram of December 16, advising that arrangements have been made with the Post Office Department that, beginning January 15, 1920, currency in denominations of $1, $2 and $5 may be shipped by Federal Reserve Banks and their Branches to correspondents and to Washington by registered mail, at Parcel Post rates, there follows a copy of the Post Office order, providing for this service, together with a statement giving full information concerning the manner of computing and paying postage on shipments and other conditions applicable thereto.

> "Parcels containing currency of one or two dollar denomination or coin put up in fixed quantities as original sealed packages, offered for mailing by the Treasury Department, or its field service, or by Federal Reserve Banks or their branches, shall, if insured at the ten cent rate of insurance, be accepted at the fourth-class rate of postage and accorded the same treatment as registered mail. Similar parcels containing currency of five dollar denomination shall be given like treatment on payment of maximum insurance fee and the fourth-class rate of postage."

"Both the inner and outer wrappers of the packages of currency may be sealed when mailed at the fourth-class (parcel post) rates of postage under the provisions of the foregoing Order. Each parcel, except when sent under the conditions indicated in the next paragraph of this letter, must be stamped on the address side thereof "Insured", the number of the parcel placed thereon, and notation made immediately under this endorsement to the effect that by direction of the Post Office Department these articles are to be handled and accorded the same treatment as registered Mail.

"Original sealed packages of currency of the one, two and five-dollar denominations and coin mailed under the provisions of Order No. 3738, when sent by the Treasury Department or its field service to the Federal Reserve Banks or their branches, or by the Federal Reserve Banks or their branches to the Treasury Department or its field service, or from one to the other, may, when the quantity is sufficient to warrant such procedure, be put up in rotary lock pouches or sacks, provided postage and insurance fees at the rates prescribed by the Order are paid on the contents of each pouch, such charges to be based on each unit of 70 or 50 pounds or fraction thereof, according to the parcel post zone to which the shipments are addressed. For instance, in the case of a pouch containing 95 pounds of currency of the one or two-dollar denomination or coin going to the third zone, postage at the rate for that zone, namely six cents for the first pound and two cents for each additional pound or fraction thereof, would be paid on the equivalent of one 70-pound parcel and one 25-pound parcel, making the total postage charge for the contents of the pouch $1.98. The insurance fees thereon would amount to 20 cents, making the total charges on the pouch $2.18. Postage stamps in payment of these charges should be affixed to a tag or label securely attached to the pouch. The pouches or sacks in which shipments are made to the Federal Reserve Banks or their branches should be closed with the ordinary domestic rotary locks and not with T-locks, as the Federal Reserve Banks and their branches have not been furnished T-lock keys.

"The postmasters concerned will be instructed in regard to the foregoing. It is understood that you desire this to go into effect on January 15,1920, and this will be satisfactory."

Very truly yours,

Secretary.

Letter to Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 24,1919.

X-1774

Subject: Loans against Live Stock
"Fully Covered by Insurance."

Dear Sir:-

The Comptroller of the Currency has issued the following ruling, construing that part of the provisions of Section 5200 of the Revised Statutes as amended by the Act of October 22, 1919, which relates to the insurance of property covered by shipping documents, warehouse receipts or other such documents covering readily marketable non-perishable staples, including live stock.

"The phrase 'covered by insurance' when applied to live stock, is held by this office to mean the insurance which it is usual under the circumstances to carry on live stock in the community or section where the property is located. It is essential, in all cases, that the bank making the loan require that the property pledged be insured for its full value with that character of insurance which will amply protect it."

Very truly yours,

Governor.

Letter to Governors and Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 27,1919.
X-1775

Subject: Readjustment of Relation of Interest Rates on Bank Balances to Discount Rates at Federal Reserve Banks.

Dear Sir:

Early in 1918, as you may remember, there was a disposition on the part of large banks all over the country to indulge in sharp competition for bank balances and to offer inducements in the way of increased rates of interest. Some of the banks in New York were bidding as high as three per cent for balances of other banks payable on demand, and the rates offered for time deposits were higher. This led to reprisals on the part of interior banks, and the bidding for business by marking up interest rates on deposits threatened to interfere seriously with the financial operations of the Government. Finally the Clearing House banks of New York agreed to fix a rate of two and one-half per cent on bank balances payable on demand, with the proviso that the interest rate would be automatically advanced or reduced one-quarter of one per cent with each advance or decline of one-half of one per cent in the ninety-day rate at the Federal Reserve Bank of New York. This rate is now four and three-quarters per cent, and should it be advanced at any time to five per cent, the rate of interest paid by New York banks for out-of-town bank balances would advance automatically to two and three-quarters per cent, and a five and one-half per cent rate at the New York reserve bank would advance the interest rate on bank balances automatically to three per cent, and so on.

The Board wishes to be free to approve such discount rates as it may deem necessary to bring about a proper control of credits, but it is anxious at the same time to avoid a disturbance of the whole banking situation such as would most likely result from an advance in the interest rate allowed on out-of-town balances by the New York Clearing House banks. The Board has sounded out the New York Clearing House Committee in order to ascertain how it feels regarding a modification of the present rule, and is informed that the Committee is not disposed to act without some definite knowledge as to the course which will be pursued by the banks in other important centers.

The Board has decided, therefore, to invite representative bankers from all parts of the country to meet in Washington on Tuesday, January 6th, 1920, for the purpose of discussing this matter in the hope that some way will be found of abrogating the existing entangling alliance between Federal reserve bank discount rates and interest rates on deposits without endangering existing banking relationships. You are requested to bring this to the attention of the clearing house authorities in your city as well as all branch bank cities in your district and to invite each clearing house association to have a representative here on the date named.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-1777

For immediate release in
morning papers, December 29, 1919.

The Board has today made public the following letter dated December 27, 1919, sent to the Chairmen of the Federal Reserve Banks.

Early in 1918, as you may remember, there was a disposition on the part of large banks all over the country to indulge in sharp competition for bank balances and to offer inducements in the way of increased rates of interest. Some of the banks in New York were bidding as high as three per cent for balances of other banks payable on demand, and the rates offered for time deposits were higher. This led to reprisals on the part of interior banks, and the bidding for business by marking up interest rates on deposits threatened to interfere seriously with the financial operations of the Government. Finally the Clearing House banks of New York agreed to fix a rate of two and one-half per cent on bank balances payable on demand, with the proviso that the interest rate would be automatically advanced or reduced one-quarter of one per cent with each advance or decline of one-half of one per cent in the ninety-day rate at the Federal Reserve Bank of New York. This rate is now four and three-quarters per cent, and should it be advanced at any time to five per cent, the rate of interest paid by New York banks for out-of-town bank balances would advance automatically to two and three-quarters per cent, and a five and one-half per cent rate at the New York reserve bank would advance the interest rate on bank balances automatically to three per cent, and so on.

The Board wishes to be free to approve such discount rates as it may deem necessary to bring about a proper control of credits, but it is anxious at the same time to avoid a disturbance of the whole banking situation such as would most likely result from an advance in the interest rate allowed on out-of-town balances by the New York Clearing House banks. The Board has sounded out the New York Clearing House Committee in order to ascertain how it feels regarding a modification of the present rule, and is informed that the Committee is not disposed to act without some definite knowledge as to the course which will be pursued by the banks in other important centers.

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FEDERAL RESERVE BOARD

WASHINGTON

December 29, 1919.
X-1778

CONFIDENTIAL

Dear Sir:-

By direction of the Federal Reserve Board, I enclose for your information a statement containing a list of the national banks in your district which on November 17, 1919 were loaning funds in New York on stocks and bonds as collateral directly and indirectly. The statement also shows the amount of bills payable and rediscounts with you, and bills payable with other banks as of the same date.

Very truly yours,

Secretary.

Letter to Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

X-1780

CONFIRMATION

Morss, Boston	Seay, Richmond	Young, Minneapolis
Strong, New York	Wellborn, Atlanta	Miller, Kansas City
Passmore, Philadelphia	McDougal, Chicago	Van Zandt, Dallas
Fancher, Cleveland	Biggs, St. Louis	Calkins, SanFrancisco

Los Angeles Branch of the Federal Reserve Bank of San Francisco will open for business January 2, 1920, and will commence settling with other Federal Reserve Banks and direct settling branches through the Daily Gold Fund Clearing, effective, statements January 2, clearing January 3. Please follow same procedure given in Board's wire November 21, 1918, subject, Gold Settlement clearings by branches Federal Reserve Bank of San Francisco. Kindly advise branches accordingly. Please acknowledge receipt.

EMERSON.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-1781

Release for morning papers,
December 31, 1919.

The Federal Reserve Board has telegraphed all Federal Reserve Banks that it will approve a schedule of rates doing away with the preferential rate heretofore given to paper secured by certificates of indebtedness, the differentials in favor of paper secured by other Government obligations having been abolished by action taken earlier in the month.

December 30, 1919.

FEDERAL RESERVE BOARD

WASHINGTON

December 31,1919.

CONFIRMATION

X-1782

Curtiss, Boston	Hardy, Richmond	Rich, Minneapolis
Jay, New York	McCord, Atlanta	Ramsay, Kansas City
Austin, Philadelphia	Heath, Chicago	Ramsey, Dallas
Wills, Cleveland	Martin, St.Louis	

Federal Reserve Board today authorized Federal Reserve Bank of San Francisco to use its discretion as to date of making public annual report of that bank. This for your information.

CHAPMAN

FEDERAL RESERVE BOARD

WASHINGTON

X-1783

December 31,1919.

CONFIRMATION

Curtiss, Boston	Hardy, Richmond	Rich, Minneapolis
Jay, New York	McCord, Atlanta	Ramsay, Kansas City
Austin, Philadelphia	Heath, Chicago	Ramsey, Dallas
Wills, Cleveland	Martin, St.Louis	Perrin, SanFrancisco

With further reference to Board's letter December 20,1919, X-1766, Board requests that the new method of determining reserves given therein be deferred until February 12th, unless otherwise indicated by the Board prior to that time.

HARDING.

1028

FEDERAL RESERVE BOARD

WASHINGTON

July 2, 1919.

SUBJECT: Monthly reports of F. R. notes received from and returned to other F. R. banks (forms 381 and 381a.)

Dear Sir:-

It has been noted that occasionally the monthly reports of Federal Reserve notes received from and returned to other Reserve banks (forms 381 and 381a) are considerably delayed, due to the fact that the Treasurer's notice (form 6232RA) showing the number of notes of each denomination redeemed is not always promptly received.

In order to obviate such delay in future, the Board has decided that, so far as forms 381 and 381a are concerned, the information called for thereon regarding the denominations of notes received from other Reserve banks, may be compiled from the advices which Reserve banks mail to the issuing bank when Federal Reserve notes are forwarded to the U. S. Treasurer for redemption.

Data regarding Federal Reserve notes received, issued to bank, returned to Comptroller, etc., as called for by form 44, should continue to be based on final advices received from the U. S. Treasurer. It may be several months before the Redemption Division of the Treasury will be able to mail final reports showing denominations of notes redeemed and delivered to the Comptroller of the Currency for destruction, and it will be necessary for you to delay accordingly the submission of your monthly reports form 44.

Yours very truly,

Assistant Secretary.

St. 469

EX-OFFICIO MEMBERS
CARTER GLASS
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

July 12, 1919.

Subject: Statistics relating to State banks and Trust companies eligible for membership in F. R. System.

Dear Sir:-

With the view of enabling the Board to continue the preparation of tables similar to those appearing on pages 26 and 27 of the 1918 annual report, it is requested that you have the following data regarding State banks and Trust companies in your district compiled from the latest available reports, and forwarded to the Board at your earliest practicable convenience:

State Banks and Trust Companies with Capital stock sufficient to meet capital requirements for membership in Federal Reserve System.
(In thousands of dollars, i.e., 000 omitted.)

	Members of F. R. System				Non-members of F. R. System			
	Number	Capital	Surplus exclusive of undivided profits	Total resources	Number	Capital	Surplus exclusive of undivided profits	Total resources
State of ______								
Date of report --								
Banks with a combined capital and surplus of-								
Less than $1,000,000								
Over $1,000,000 but less than $5,000,000								
$5,000,000 and over								

In addition to furnishing separate data for each State, it will be appreciated if you will give the name and location of each non-member State bank and Trust company in your district which has a combined capital and surplus of $1,000,000 or over.

In acknowledging receipt please state the approximate date on which we may expect to receive your report.

Yours very truly,

Secretary.

St. 481.

Copy of this letter sent to Chairman of each F. R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

July 15, 1919.

St. 485.

SUBJECT: Verification of statistics appearing in the Federal Reserve Bulletins.

Dear Sir:

With the view of insuring accuracy in the figures published in the Board's annual Reports and of avoiding any inconsistencies between figures shown therein and in the reports of the Federal Reserve Agents, our Statistical Division has been carefully comparing the figures given in these reports before sending to the printer the manuscript of the statistical portion of the Board's report. Owing to the larger volume of business handled during 1918 and to certain changes in the method of presenting statistics, it was found very difficult to reconcile some of the figures contained in the Agents' 1918 reports with those compiled by our Statistical Division. This caused considerable correspondence and delayed the final printing of the report.

It is the Board's desire to have its annual report appear at the earliest practicable date after January 1st of each year, and with the view of avoiding the necessity of having to reconcile figures covering 12 months' operations after the close of the year, it is requested that your accounting and statistical departments be instructed to check all figures appearing in the monthly Federal Reserve Bulletins, so far as they relate to statistical matter which is being currently compiled by your bank or which may be compiled for insertion in your 1919 annual report. In case any inaccuracies are found in the figures shown in the Federal Reserve Bulletins, they should be called immediately to the attention of our Statistical Division in order that its records may be corrected and the necessary changes made in the cumulative figures which are carried forward from month to month. Likewise, any errors in figures published in the Bulletins, which are discovered by our Statistical Division, will be brought to your attention promptly, in order that permanent copies of the Bulletin on file at your bank may be corrected to agree with the permanent records of the Board.

If the above suggestions are carefully carried out, figures for the first eleven months of the year, as shown in your 1919 annual report, should be in exact agreement with those compiled by the Board for that period. This will leave only figures for the month of December to be reconciled at the close of the year when the annual figures are compiled by the Board.

CLASSIFICATION OF WAR PAPER - With the view of securing uniform classification of war paper, it is requested that the method of classification adopted by our Statistical Division, which is outlined below, be followed by your bank:

In classifying war paper the Statistical Division includes only collateral notes or other discounts fully secured by war obligations and discounted at rates approved for war loan paper. Paper having a maturity in excess of 90 days at the time of discount with the Federal Reserve bank, (agricultural and livestock papper), even when fully secured by war obligations, is not included with war paper. Neither do our figures include paper only partly secured by war obligations and discounted at regular commercial rates, even though the rate of discount may be the same as that charged on war paper.

Where customers' paper which is fully secured by government war obligations is used as security for member banks' collateral notes, such collateral notes are classed as war paper. On the other hand, where a portion of the customers' paper used as security for collateral notes is not fully supported by Government war obligations, the collateral notes are not classed as war paper.

TOTAL INVESTMENT OPERATIONS - Particular attention is called to the fact that figures shown in the table entitled "Total investment operations of each Federal Reserve Bank" (page 590 of the June Bulletin), represent the investments of each Federal Reserve bank, exclusive of paper discounted for or purchased from another Federal Reserve bank. Tables showing rediscounts and sales of discounted and purchased paper between Federal Reserve banks are published quarterly, in the February, May, August and November Bulletins. It would seem desirable fr each Reserve bank to set up in separate columns in their tables of investment operations figures showing the amounts of paper discounted for or purchased from other Federal Reserve banks. This will bring out more clearly the amount of accommodation extended to member banks in your district, as well as your open market purchases of acceptances.

Figures representing purchases of U.S. securities should include only such securities as become a part of the bank's earning assets. Securities purchased for allotment to subscribers and immediately delivered should be excluded and should not be listed on Schedules S-2 from which the Board's statistics are compiled.

It will be appreciated if you will call our attention, at your earliest convenience, to any necessary corrections in the figures relating to the investment operations of your bank, as published in the March, April, May, June and July Bulletins.

Yours very truly,

Secretary.

(Copy of this letter sent to all Chairmen.)

FEDERAL RESERVE BOARD

WASHINGTON

July 15, 1919.

Subject: Open market operations
of Federal Reserve
branch banks.

Dear Sir:-

An examination of reports received from Federal Reserve branch banks shows that while some of them have been purchasing bankers' acceptances from member banks and carrying them on their own books, others have refrained from doing so for the reason that their by-laws have been interpreted as prohibiting the carrying of bankers' acceptances purchased from member banks on the books of the branches.

In this connection, I may say that the section in the by-laws of certain branches which provides that they shall not engage for their own account in open market transactions, bankers' acceptances, etc., except upon the order and for the account of the head office, is not construed by the Board as prohibiting boards of directors of Federal Reserve banks from authorizing a branch to purchase bankers' acceptances <u>from member banks</u> and to carry such acceptances on the branch books.

Will you kindly bring this matter to the attention of your Board of Directors, and oblige,

Yours very truly,

Governor.

St. 487

(Copy of this letter sent to all Chairmen).

FEDERAL RESERVE BOARD

WASHINGTON

July 23, 1919

St.502

SUBJECT: Classification of purchased bills according to endorsement.

Dear Sir:

An examination of forms 38 received from the several Federal Reserve banks and branches, shows that some of the banks and branches have been reporting acceptances endorsed by the acceptor but by no other bank, as "Acceptances not bearing the endorsement of any bank or banker", while others have been reporting such acceptances among those bearing the endorsement of a member bank or of a non-member bank or banker as the case may be.

Inasmuch as the endorsement of the acceptor does not add anything to the quality of the acceptance, except possibly that it guarantees prior endorsements, our Statistical Division has adopted the rule that the endorsement of the acceptor be disregarded when compiling data for the monthly Bulletin. Accordingly we would request that your discount department report acceptances bearing the endorsement of the acceptor only, and of no other bank or banker, as acceptances not bearing the endorsement of any bank or banker.

Very truly yours,

Assistant Secretary.

(Copy sent to Chairman of each Federal Reserve Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

July 24, 1919.

St.505

SUBJECT: Revision of weekly member bank condition statement to provide for separate classification of loans secured by stocks and bonds, other than U. S. securities.

Dear Sir:

With the view of enabling the Board to follow more closely changes in the character of the loans and discounts of member banks, may we request that you instruct all member banks submitting weekly condition reports (form 51a) to report separately, beginning with the report for August 15, the amount of their "Loans secured by stocks and bonds, other than United States securities." Please request also all reporting member banks to include in the future under caption "All other loans and investments", all loans and discounts (exclusive of those shown against items 6 and 7 on form 51, and of paper under rediscount); also all stocks, bonds and mortgages actually owned by the bank whether pledged or unpledged, (exclusive of real estate, banking house, furniture and fixtures, and Federal Reserve Bank stock.)

There are forwarded herewith 75 copies of form St.51 (revised as of July 23, 1919), for the use of your bank in submitting the consolidated report to the Board.

Yours very truly,

Governor.

(Copy sent to Chairman of each Federal Reserve Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

August 2, 1919

St.517

SUBJECT: Monthly Report of Federal Reserve notes received from and returned to other Federal Reserve banks, forms 381 and 381a.

Dear Sir:

It has been brought to the attention of the Federal Reserve Board that a number of Federal Reserve banks frequently fail to show complete information in their advices to other Federal Reserve banks, regarding denominations of notes forwarded to the United States Treasurer for redemption.

Inasmuch as these data are now used in the preparation of the monthly reports of Federal Reserve notes received from other Federal Reserve banks, (forms 381 and 381a) in accordance with the Board's letter St.469 dated July 2, it is essential that complete details regarding the denominations of all notes returned to the Treasurer for redemption be given in such advices. Will you therefore be good enough to have this matter brought to the attention of the proper department, and oblige.

Yours very truly,

Acting Assistant Secretary.

(Copy sent to Chairman of each Federal Reserve bank.)

FEDERAL RESERVE BOARD

WASHINGTON

August 9, 1919.

Subject: Monthly report of current expenses, form 96.

Dear Sir:-

We are forwarding to you today under separate cover copies of monthly report of current expenses, form 96, revised as of July 18, 1919.

Item GILT "All Other Salaries" has been changed so as to provide for showing separately extra help, overtime, and supper money. We have also changed the heading of the last column on the form to read "Total since July 1, 1919". It will be satisfactory to the Board if you will also show, in the last column on form 95, your total earnings since July 1, 1919, instead of since January 1, as has been the custom heretofore.

Kindly acknowledge receipt.

Very truly yours,

Acting Assistant Secretary.

St. 531

Copy to be sent to Chairman of each Federal Reserve Bank.

FEDERAL RESERVE BOARD

WASHINGTON

August 19, 1919.

St-553

SUBJECT: Form 107a, Special Notification of Dividends Declared by State Bank and Trust Company members.

Dear Sir:

There are being forwarded to you today under separate cover   copies of new form 107a, "Special Notification of Dividends Declared," for the use of State bank and trust company members in submitting reports of net earnings, dividend payments, etc., to your bank.

Please instruct each non-national member bank in your district to submit a report in duplicate, on form 107a, within 10 days after each dividend declaration. The original copies of such reports should be forwarded to the Federal Reserve Board, and the duplicate copies retained for your files.

Please acknowledge receipt.

Yours very truly,

Acting Secretary.

(Copy sent to Chairman of each Federal Reserve Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

Aug. 21, 1919.

St.557

SUBJECT: Weekly report covering sales of Government securities.

Dear Sir:

There are being forwarded to you today under separate cover 50 copies each of forms St.550, 551 and 552 for the use of your bank in submitting weekly reports to the Federal Reserve Board covering sales of Government securities, including Victory notes and Certificates of Indebtedness, also Treasury Savings Certificates, War Savings Stamps and Thrift Stamps. It is requested that your first reports on these forms be submitted as at close of business on Friday, August 29. Reports on forms 106 (War Savings and Thrift Stamps) and 132 (Fifth Liberty Loan) may be discontinued as of that date.

Reports on forms St.551 and 552 covering certificate of indebtedness operations should relate only to such certificate issues as have not matured on the date the report is rendered. To illustrate: Of the ten issues of certificates placed in anticipation of the Victory Loan, all but two have matured, and accordingly your report for August 29 of certificates issued in anticipation of the Victory loan should include only transactions under the two issues of certificates maturing on September 9 and October 7. Separate data should be furnished for each certificate issue. Reports on form St.550 should cover Treasury Savings Certificates, War Savings Stamps and Thrift Stamps of the 1919 series only.

It will be appreciated if reports on the new forms are submitted as promptly as practicable after the close of business on each Friday.

Please acknowledge receipt.

Very truly yours,

Acting Assistant Secretary.

(COPY SENT TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.)

FEDERAL RESERVE BOARD

WASHINGTON

September 8, 1919

St.582

SUBJECT: Revision of form 38, "Distribution, by classes, of paper and short-term investments held."

Dear Sir:

There are being forwarded to you today under separate cover copies of form 38, revised as of August 20, 1919. Slight changes have been made in the wording of items under the head "Classification of purchased bills according to endorsement" in order to avoid any misunderstanding of the Board's method of classifying endorsements, as outlined in our letter St.502 dated July 23, 1919. A note has also been added at the bottom of the new form with regard to "Bills discounted for members and other F.R. banks, otherwise secured and unsecured" as reported against item 1. As no other changes have been made in the form you may continue to use the old edition (revised as of April 12, 1919) until your supply thereof becomes exhausted.

Branches which carry earning assets on their own books should be supplied by the parent bank with copies of the revised form.

Please acknowledge receipt.

Yours very truly,

Acting Assistant Secretary

LETTER SENT TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD
WASHINGTON

September 12, 1919.

St.589

SUBJECT: Revision of form 44-a, Monthly report of F.R. notes outstanding and on hand, and funds held as security.

Dear Sir:

There are enclosed herewith 50 copies of form 44-a (Revised September 12, 1919) for use in making future monthly reports of Federal Reserve notes outstanding and on hand also funds held as security for outstanding notes. The only changes in the form are the addition of the words "Gold Settlement Fund" after "Credit balance with Federal Reserve Board" (item ROLF), and the substitution of the code word RITT for BEET to designate Federal Reserve notes on hand, as well as the addition of a note explaining the character of information to be reported against item RITT.

Kindly acknowledge receipt.

Yours very truly,

Acting Assistant Secretary.

(Enclosure)

LETTER SENT TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

September 20,1919.

St.605

Subject: Maturity classification of acceptances purchased for account of or sold to other F.R. Banks.

Dear Sir:

During the more recent period a number of Federal Reserve Banks, in telegraphing their weekly condition report form 34 to the Federal Reserve Board as at close of business each Friday night, have failed to classify by maturities acceptances in transit purchased from or through the New York Bank. Inasmuch as the law requires the Federal Reserve Board to make public a statement each week showing the maturities of all paper held by each Federal Reserve Bank, it has been necessary for us to obtain by wire the correct maturity classification of such acceptances from your bank, or else to request the purchasing Reserve Bank to ascertain the maturities and wire them to us in time for inclusion in the Board's weekly statement.

With the view of enabling each Federal Reserve Bank to give us the correct maturity classification of its total acceptance holdings as at close of business each Friday, it is requested that in the future, when acceptances are purchased by your bank for the account of another Reserve Bank, or when acceptances are sold to another Federal Reserve Bank from your portfolio, you wire the purchasing bank, in addition to the information now furnished, also the maturity classification of the acceptances as of close of business on the following Friday, in accordance with the classification appearing on the reverse side of form 34 (code items RIPE to TROT, inclusive). In case acceptances are purchased for the account of another Reserve Bank on Friday, the maturity classification should of course be given as of close of business on the date of purchase.

A copy of this letter has been furnished to each other Federal Reserve Bank.

Kindly acknowledge receipt.

Yours very truly,

(Signed) R.G. EMERSON.

Assistant Secretary.

Mr. Pierre Jay,
Chairman, Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BOARD

WASHINGTON

September 20, 1919.

St. 605

Subject: Maturity classification of acceptances purchased from or through other F.R. Banks.

Dear Sir:

There is attached hereto a copy of a letter addressed to the Chairman of the Board of Directors of the Federal Reserve Bank of New York regarding the maturity classification of acceptances purchased for the account of other Reserve Banks.

In case of future purchases of acceptances by your Bank from or through another Federal Reserve Bank, please make sure that sufficient information is obtained from the bank from or through which the acceptances are purchased, to enable you to show in your weekly condition report form 34 the proper maturity classification of such acceptances as called for on the reverse side of form 34.

Kindly acknowledge receipt.

Very truly yours,

Assistant Secretary.

(Enclosure)

FEDERAL RESERVE BOARD

WASHINGTON

October 2, 1919.

St. 623

SUBJECT: Outline of Federal Reserve branch banks, covering powers, functions, and character and volume of business handled.

Dear Sir:

There are enclosed herewith _ copies of "Outline of Federal Reserve Branch Banks, covering Powers, Functions, and Character and Volume of Business Handled." The outline is based on periodical and special reports received from the Federal Reserve banks and branches during the first half of the present year, and on information supplied in response to our letter of May 19 transmitting the preliminary outline (to the Federal Reserve banks concerned) for comments and suggestions.

The purpose of the outline is to present in a uniform way, for the information of members and officers of the Federal Reserve Board and the officers of the Federal Reserve banks and branches, the method of operation obtaining at each branch bank. It is expected to revise the statement from time to time, and with a view to keeping it up-to-date as well as of making any desirable improvements, it will be appreciated if you will bring to our attention any suggestions tending towards greater uniformity in presentation that may occur to you, or any alterations or revisions that may be necessary because of changes in the organization or operation of branches.

Kindly acknowledge receipt.

Yours very truly,

Assistant Secretary.

(Enclosure)
LETTER SENT TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

October 4, 1919.

St. 627

SUBJECT: Debits to individual account at clearing house banks.

Dear Sir;

A comparison of the weekly figures of debits to individual account, as reported to the Federal Reserve Board each week, Code Isha, with total clearings for some of the leading clearing house centers of the country shows that in some cases figures of debits to individual account are five or six times as large as the clearing figures, while in a few instances the clearing house figures are larger than the figures of debits to individual account. On the whole figures of debits to individual account are somewhat larger than the bank clearings.

By referring to page 258 of the March 1919 Federal Reserve Bulletin you will note that instructions for the guidance of clearing house managers provide that reports of debits to individual account should be confined to the banks which are members of the local clearing house or which clear through clearing house members. While most of the clearing house managers are complying with the above request it appears from an analysis of available figures that in some cases figures of debits to individual account are given for banks which are not members of the clearing house and which do not clear through clearing house members.

With a view, therefore, to ascertaining whether or not the figures for all clearing house centers are compiled on a uniform basis it is requested that you furnish the Federal Reserve Board with a statement showing the following information for each clearing house center for which figures of debits to individual account are obtained:

1. Number of clearing house members.

2. Number of clearing house members submitting weekly figures of debits to individual account.

3. Number of clearing non-members (i.e. banks which clear through members of the clearing house.)

4. Number of clearing non-members submitting weekly figures of debits to individual account.

Yours very truly,

Assistant Secretary.

Copy of this letter sent to Chairman of each F.R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

October 7, 1919

St. 635

SUBJECT: Abstract of Condition of Member Banks as of June 30, 1919.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 7 showing condition of member banks as at close of business on June 30, 1919. Please forward one copy of the abstract to each State Bank and Trust Company member in your district.

Very truly yours,

Assistant Secretary.

Mr.
Federal Reserve Bank,

Copy of this letter forwarded to Chairman of each Federal Res. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

November 3, 1919.
St. 680

Subject: Revision of daily balance sheet, form 34.

Dear Sir:

We are enclosing herewith a copy of the 1919 edition of form 34, with certain changes indicated thereon which it is proposed to incorporate in the 1920 edition.

The manuscript for the form is being forwarded to the printer today, as it is desired to get the new form out at the earliest date practicable in order that the banks may proceed with the printing of their ledgers for the forthcoming year. It will be appreciated, therefore, if you will advise us at your early convenience of any changes you may wish to suggest for incorporation in the form; also the number of copies which your bank (and branches, if any) will require for use during the calendar year 1920.

In case it is desired to have special headings on the forms to be used by branches, the Board should be advised of the number to be printed for each branch.

Very truly yours,

Assistant Secretary.

(Enclosure)

Letter sent to all Chairmen of Federal Reserve Banks

FEDERAL RESERVE BOARD

WASHINGTON

November 3, 1919.

St. 681

SUBJECT: Revision of weekly member bank condition report (form St. 51).

Dear Sir:

In accordance with our telegram of today, which is quoted below, we are enclosing herewith 50 copies of form St. 51 (revised November 3, 1919) for the use of your bank in submitting the regular weekly member bank condition report:

"Beginning with member bank report form St. 51 for November 14 please wire in substitution of item, Loans secured by United States war obligations, Codes HUNT, KUSE and PURA, the following items:

Loans secured by Liberty bonds, code HADD for banks in Federal reserve bank cities, code KAPU for banks in branch cities, code PARU for all selected banks.

Loans secured by Victory notes, codes HULU, KINK and PENK respectively,

Loans secured by Treasury certificates, codes HYOP, KORN and POMP respectively.

"Revised form St. 51 being mailed today. Please acknowledge by wire and instruct selected banks accordingly".

It is suggested that the form furnished member banks be modified to correspond with form St. 51 as revised, and that a new supply be forwarded to each reporting bank.

Kindly acknowledge receipt.

Yours very truly,

Assistant Secretary.

(Enclosure)

Letter sent to Chairmen of all F. R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 6, 1919.

St. 692

SUBJECT: Revised form 105, Condition report of State bank and Trust company members.

Dear Sir:-

There are being forwarded to you today under separate cover copies of form 105, Report of condition of State bank and Trust company members (revised Oct. 20, 1919), together with copies of our circular letter of June 14 giving instructions regarding the preparation of condition reports. It is requested that three copies of form 105 be sent to each State bank and Trust company member in your district, with instructions to hold the blank forms pending receipt of a call for condition report, when they should be promptly filled out and two copies mailed to you -- in no case later than ten days after receipt of the call.

State banks and Trust company members who submitted condition reports as of June 30 and were supplied at that time with a copy of the letter of instructions above mentioned, should be advised that the general instructions of June 14 are applicable practically in their entirety to the revised form of report. Material changes in the latest edition which should be brought to the attention of the banks are as follows:

First, the two items formerly shown in the memorandum at the bottom of the form as contingent liabilities -- "Acceptances of other banks payable at future date guaranteed by this bank by endorsement or otherwise" and "Foreign bills of exchange or drafts sold with endorsement of this bank" -- are now treated as deductions from item 1-a, Loans and Discounts - gross.

Second, Among Contingent Liabilities we show now the following three items at the bottom of the form: (a) Documentary letters of credit issued but not used or drawn against; (b) Other foreign credits opened for customers but not used; and (c) Travelers' letters of credit issued under guarantee or deposit of security but not drawn against.

Third, A new schedule (4), Loans to banks, bankers and Trust companies now appears on the reverse side of the report. The schedule of loans and discounts, formerly numbered 4, is now numbered 5.

Fourth, Demand deposits which were formerly shown as item 32 now appear as item 33.

Institutions which have joined the system since June 30, 1919 should be supplied with a copy of the general instructions of June 14. They should also be advised of the above changes made in form 105 since the preparation of the circular letter of instructions.

It will be appreciated if, after call is made, you will make special efforts to see that as far as practicable reports are received and forwarded to the Board within ten days from date of call.

Very truly yours,

Assistant Secretary.

LETTER SENT TO CHAIRMAN OF EACH F. R. BANK.

FEDERAL RESERVE BOARD

WASHINGTON

November 22, 1919.
St.716

SUBJECT: Revision of Daily Balance Sheet, form 34.

Dear Sir:

We are enclosing herewith one copy of the final proof on form 34, revised for use during the calendar year 1920. The ruling on the new form will be practically identical with that on the form now in use.

The 1920 edition of the form will be forwarded direct to your bank by the Government Printing Office, and should reach you not later than December 20.

Very truly yours,

Assistant Secretary.

Enclosure

LETTER SENT TO CHAIRMEN OF ALL F. R. BANKS EXCEPT CHICAGO

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1919

St. 719

SUBJECT: Preparation of tables and charts for insertion in 1919 Annual Report.

Dear Sir:

To insure uniformity of presentation, the Federal Reserve Board will have prepared for insertion in the forthcoming Annual Report of each Federal Reserve Agent, tables and charts relating to the movement of principal earning assets, of deposit and note liabilities and of reserves of the respective Federal Reserve banks. The tables will be similar to those published on pages 285-288 of the Board's 1918 Annual Report, though the charts will be in somewhat different form. Tables and charts will be forwarded to you as soon as completed.

Please acknowledge receipt.

Very truly yours,

Assistant Secretary.

(Copy of this letter sent to Chairman of each F. R. bank.)

FEDERAL RESERVE BOARD

WASHINGTON

December 8, 1919

St.743

SUBJECT: Loans of reporting member banks secured by Government war obligations.

Dear Sir:

There is enclosed herewith a copy of the Board's weekly statement showing, as of November 21 and 28, 1919, loans of reporting member banks in each Federal Reserve District as well as in each Federal Reserve Bank city, secured by (1) Liberty bonds, (2) Victory notes, (3) Treasury certificates.

This segregation of loans secured by Government War obligations will not be made in the Board's weekly press statement, and as you will note from the statement itself, the figures should be regarded as confidential and not for publication.

Copies of the new statement will be mailed to your bank regularly each week.

Yours very truly,

Assistant Secretary

(Enclosure)

COPY OF THIS LETTER SENT TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.

FEDERAL RESERVE BOARD

WASHINGTON

December 16, 1919.

St. 763

SUBJECT: Revision of Form FRA-5, Daily Statement of Federal Reserve Agent, for use during 1920.

Dear Sir:

In accordance with your telegraphic request, we have placed your order with the printer for copies of the 1920 edition of Form FRA-5, Daily Statement of Federal Reserve Agent to Federal Reserve Board. The forms will be forwarded to you direct from the Government Printing Office, and it is expected that they will reach you on or about January 1.

The principal changes in the revised form are the elimination of item "Lawful money on hand" on the Resource side, and "Funds received in reduction of liability for Federal Reserve notes" on the Liability side. Provision has also been made for the signature of the Federal Reserve Agent at the bottom of the form.

In case the supply of the revised form does not reach you by January 1, you may continue to use the present edition pending receipt of new forms.

Yours very truly,

Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

December 17, 1919.

St.770

SUBJECT: Reports of earnings, expenses and dividend payments for 1919.

Dear Sir:

Please be good enough to accompany your regular earnings and expense reports for the month of December with the following additional data for the period January 1 to December 31, 1919:

(1) Statement showing the following information:

(code)			
EACH	- Gross earnings	________	
	- Total current expenses	________	
EARN	- Net earnings		________
ELBA	- Net debit or credit to Profit and Loss account during year		________
	- Net amount available for dividends, surplus and franchise tax		________
	- Dividends paid	________	
	- Interest paid on surrendered stock	________	
EYRE	- Total dividend payments		________
EVEN	- Carried to surplus fund		________
EMET	- Paid to Government as franchise tax		________
	TOTAL		________

It will be appreciated if the amounts shown opposite items for which code words have been supplied are telegraphed to the Board not later than January 7, 1920.

St.770a

(2) Itemized statement showing in detail all debits and credits to Profit and Loss account during the year.

(3) Separate reports on forms 95 and 96 showing, in the second or total columns, earnings and expenses during the entire year. The regular monthly reports on these forms should, of course, show in the second columns the earnings and expenses of your bank from July 1 to December 31, 1919.

Kindly acknowledge receipt.

Yours very truly,

Assistant Secretary.

(Copy ~~of this letter~~ sent to Chairman of each F. R. Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

December 19, 1919
St.776

SUBJECT: Revision of form 31-b, Weekly
Federal Reserve note report.

Dear Sir:

There are being forwarded to you under separate cover 200 copies of form 31-b, revised for use during the calendar year 1920. It will be noted that a new item "Eligible paper pledged with F. R. Agent", has been added to the form. This item should be telegraphed to the Board regularly each week as a part of your report. Accordingly, the bank may discontinue telegraphing the item as a part of its Friday night report, although it should continue to show it on the mail report, form 34.

Very truly yours,

Assistant Secretary.

COPY OF THIS LETTER SENT TO EACH FEDERAL RESERVE AGENT.

FEDERAL RESERVE BOARD

WASHINGTON

December 19, 1919.
St.777

SUBJECT: Form 34 revised for use during the calendar year 1920.

Dear Sir:

The revised edition of form 34 for use during the year 1920 will be sent out by the Government Printing Office the latter part of this month and should reach the banks in time to enable them to submit their statements for January 2 on the new form. Changes in form of statement relate chiefly to the Treasurer's General Account. The Board has also ordered a change in the method of calculating the reserve percentage to which your particular attention is called.

Treasurer's General Account: As stated in the Board's letter X-1725 of November 15, the Treasurer's General Account has been divided into Collected Funds, code COPY, and Uncollected Funds, code CURZ. No change in the method of crediting items to Government account is involved in this division of the Treasurer's General Account, the purpose being merely to show separately any uncollected funds for which immediate credit has been given. Items for which the Government has been given deferred credit should be reported against Government Transit Items, code CHAT, as heretofore. In case the Government collected fund account, code COPY, is overdrawn, the overdraft should be shown in red. Uncollected items credited to the Treasurer's General Account, code CURZ, should be shown gross, regardless of any overdraft which may occur in the collection fund account. The sum of the respective amounts reported against items COPY and CURZ should be extended into the long column as the actual balance in the Treasurer's General Account. In case the collected fund account is overdrawn, the balance to be extended is, of course, the amount of uncollected items credited (code CURZ) less the overdraft in the collected fund account, except when the overdraft in the collected fund account is greater than the amount shown in the uncollected fund account, in which case the resulting overdraft should be shown on the resource side of the form against code BORE.

Deposits on which reserve is computed: In accordance with a recent opinion of counsel the Board has ruled that beginning with January 1, 1920, the reserves required to be carried by Federal Reserve banks against deposits will be computed against immediately available deposits only; i.e., against code items COPY, CURZ, CLAY, CHOP, CERE, CINO and CORA of the 1920 edition of form 34. Accordingly beginning with January 1, 1920, deferred availability items on the liability side and uncollected items on the resource side of form 34 will be disregarded in determining the deposit liability on which reserve is computed.

Changes in Board's Weekly Bank Statement: The following changes will also be made in the Board's weekly bank statement:

Caption "Uncollected items and other deductions from gross deposits" will be changed to read "Uncollected items" and will appear immediately below caption "5% redemption fund against F. R. Bank Notes."

Caption "All other resources" will be changed to read "All other resources, including amounts due from foreign banks," and will comprise items BILL, BORE, BADE, BUFF, BOLD, BOND, and BURS of form 34.

Caption "Deferred availability items" will be shown immediately preceding "All other liabilities." The latter caption will be made up of items TULE, CART, CURE, and BYKE of form 34.

Caption "Deposits on which reserve is computed" will be substituted for caption "Total gross deposits" and the word "net" will be eliminated from the caption of both memorandum items showing reserve ratios.

In this connection attention is invited to Board's letters St. 118 of December 18, 1918, and X-1542 of May 20, 1919, in which it is requested that in future press reports showing the resources and liabilities of your bank you use the same captions and follow the same order of presentation as adopted by the Board in its weekly press statement. In case you desire to show items in greater detail than in our weekly statement, there will be no objection on the part of the Board, provided you show the detailed items under sub-heads and give in addition, totals against the same captions as are shown in the Board's weekly statement.

Very truly yours,

Governor.

Enclosures:
1. Skeleton of 1920 form of the Board's weekly Bank Statement.
2. Unruled copy of 1920 edition of form 34.

COPY OF THIS LETTER SENT TO CHAIRMAN OF EACH F. R. BANK.

FEDERAL RESERVE BOARD

WASHINGTON

December 23, 1919

St. 784

SUBJECT: State Banks and Trust Companies eligible for membership.

Dear Sir:

There are enclosed herewith for your information copies of three statements (St.702, 717, 737) relating to State banks and Trust Companies, both members of the Federal Reserve System and non-members eligible for membership on the basis of capital requirements.

The data relating to member banks were compiled from the June 30, 1919, Condition Reports and that relating to eligible non-member banks and trust companies from special reports furnished by the Federal Reserve banks in accordance with the Board's letter of July 12, 1919, (St.481).

It is suggested that copies of the statements be furnished each of your branches.

Very truly yours,

Assistant Secretary.

Enclosure.

COPY OF THIS LETTER SENT TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.)

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

December 23, 1919

St.793

SUBJECT: Statistics of Fiscal Agency operations.

Dear Sir:

For use in connection with the Board's forthcoming annual report, will you kindly have a statement prepared showing the following statistics relating to fiscal agency operations of your bank during the calendar year 1919:

1. Number of banks from or through which subscriptions were received for Victory Loan notes.
2. Number of banks subscribing to certificates of indebtedness during year (no bank to be counted more than once).
3. Total amount of certificates of indebtedness redeemed during the year.
4. Number of special war-loan depositaries in district at end of year.
5. Amount of securities pledged against war loan deposits, as of the end of each month.
6. Number of custodians of collateral for war-loan deposits at beginning and end of year.
7. Aggregate number and amount of Liberty and Victory Loan coupons paid during year.

It will be appreciated if the above data are furnished at the earliest practicable date after January 1.

Yours very truly,

Executive Secretary.

(LETTER SENT TO CHAIRMAN OF EACH F. R. BANK.)

FEDERAL RESERVE BOARD

WASHINGTON

December 26, 1919.

St. 799

SUBJECT: Revision of Form St. 51, Weekly Member Bank Condition Report.

Dear Sir:-

There are being transmitted to you today under separate cover 100 copies of form St. 51, Weekly report of principal resource and liability items of member banks in selected cities. The form has been revised to provide for the subdivision of items 14 and 15, Member banks' collateral notes and Bills discounted for member banks, so as to show separately paper secured by war obligations and paper otherwise secured, this segregation having been requested in our telegram of December 4.

It will be appreciated if you will furnish the Board with a copy of the latest revision of form St. 51-a supplied by you to reporting member banks.

Yours very truly,

Assistant Secretary.

LETTER SENT TO CHAIRMAN OF EACH F. R. BANK.

FEDERAL RESERVE BOARD

WASHINGTON

December 30, 1919.

St.810

SUBJECT: Earnings and Dividends reports of State bank and Trust company members as of Dec. 31, 1919.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 107 for use of State bank and Trust company members in submitting their semi-annual reports of earnings and dividends. No changes have been made on the face of the form, although Section 5204 of the Revised Statutes, which relates to bad debts, has been printed on the reverse side.

Please advise the banks that the report is to cover the six-month period ending December 31, 1919, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

The report should be submitted to you in duplicate within ten days after receipt of the blank forms by reporting banks.

Yours very truly,

Assistant Secretary.

(COPY OF THIS LETTER SENT TO CHAIRMAN OF EACH F. R. BANK.)