

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

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The following is a review of the experience and development of the Federal Reserve System during the year ending June 30, 1921, which is to appear in the forthcoming (July) Federal Reserve Bulletin as part of the usual "mid-year Statistical Review".

MID-YEAR STATISTICAL ISSUE. For the third successive season the Federal Reserve Board presents in the current (July) issue of the Bulletin a mid-year statistical number. The purpose this year, as in previous statistical numbers, is to continue the review of current financial history, bringing it down to June 30, 1921. As noted on former occasions, the annual report of the Board supplies a general description and outline of existing conditions by calendar years. It has been thought best, however, to furnish a critical analysis from the statistical standpoint, covering the intermediate periods ending June 30. The analysis published a year ago in July, 1920, reviewed the development of conditions up to what has since turned out to be practically the "peak" of the post-war expansion in banking, currency, finance, and business. Developments during the past year carry the so-called "deflation" movement to what seems to be practically its limit, at least for the time, and exhibit in their full effect the factors whose consequences were seen only in an incomplete form at the time of the Board's last annual report. The figures herewith submitted show the character of the conditions which have developed during the past year and illustrate the situation as affected by the process of

restoring banking and financial soundness.

Five main periods in the history of the Federal Reserve System were recognized at the outset of the last annual statistical review; November, 1914-December, 1916; January, 1917-April, 1917; May, 1917-November 11, 1918; November 12, 1918- June, 1919; and July, 1919-June, 1920. The better perspective in which past events can now be viewed would apparently indicate that the last period should be merged with the fourth or preceding epoch, making the dates November 12, 1918, to May, 1920, while the fifth period in the history of the system now appears as June, 1920, to the present date, or later as subsequent events may determine. The fourth period is thus an "expansion" or "inflation" period, within which may be recognized, if desired, certain subperiods marking changes in credit control, while the fifth period is a time of readjustment. Characteristics of this latest period have been, on the banking side, reduction of loans and bills held, retirement of note circulation, gain in gold, and liquidation of investments; while on the business side they have been lowering of production, growth of unemployment, falling off of foreign trade, and reaction of prices.

A TURNING POINT IN TRADE AND INDUSTRY. Although the fact was not at the time realized in its full significance, prices, physical volume of production, trade and business in general had reached their peak during May and June, 1920. As is usually the case, the high point in banking accommodation came somewhat later. The year 1920-21 may, in fact, be divided into three subperiods, the first extending from shortly before the middle of 1920 to early autumn. During these months there was hesitation, reluctance to recognize the fact that a time of recession had arrived, and

a strong effort to hold prices, wages, and values in general at the level which had then been reached. From early autumn until practically the opening of spring (1921) there was a steady recession of prices, values and wages, and a period of corresponding readjustment throughout almost all branches of industry and in almost all countries of the world. In fact, the downward movement had set in earlier in some foreign countries than in the United States, many persons regarding Japan as having been the first country to feel the effect of the new business factors which were later to make themselves felt elsewhere. The spring months of 1921 would seem, in the light of information now available, to be a period of approach to equilibrium in certain lines of business and of preparation for recovery from the depressed conditions that had developed. The changes referred to have, in fact, been practically world wide. If anything, they have been less extreme or violent in the United States than elsewhere, not only in banking and credit, but in production and trade generally. The year 1920-21 has been a period of reorganization. This reorganization, with its effects, has, like all great business changes, been directly reflected in our banking position and in the corresponding position of banking systems the world over. While it would appear at the present time that the period of readjustment is drawing to a close, this does not necessarily mean that there will be no further movement or recession or that the readjustment process has completed itself. On the contrary, there are many factors which seem to make it sure that still further work in the direction of readjustment must be accomplished before even approximate stability can be arrived at. The facts now available, however, would indicate that the main elements in business and industrial recession have made their effects manifest, and that there have been in

the majority of lines fairly extensive realignments of relationships. In all this process there has been nothing more noteworthy than the effect of readjustment upon our banking institutions.

CHANGE IN RESOURCES. Comparison between conditions existing during 1920 with those which have been attained at the close of June, 1921, exhibit the following results:

Reserves, earning assets, and total resources of Federal Reserve Banks.

(In thousands of dollars)

	June 25, 1920.	Oct. 15, 1920.	June 29, 1921	Percentage change.	
				June 25 Oct. 15, 1920.	Oct. 15, 1920- June 29, 1921.
Total reserves	2,108,605	2,154,911	2,625,458	+2.2	+24.5
Total earning assets.....	3,183,275	3,421,976	2,060,495	+7.5	-35.3
Total resources	6,074,713	6,610,250	5,242,041	+8.8	-13.7

As stated a year ago, the capital of the Federal Reserve Banks was figured as \$94,500,000 and total resources as \$6,075,000,000, whereas at the present time the corresponding figures are \$102,184,000 and \$5,242,041,000. The change in capital for the year has thus amounted to 8 per cent, reckoning the condition at the close of June, 1920, as a basis, while the aggregate of resources has fallen by approximately 14 per cent. The advance in capital has, as in former years, been due to the gradual growth of the actual capitalization of the members of the Federal Reserve System already admitted, and in part to the movement of new members into the system. The net number of new national-bank members admitted during the year ending June, 1921, has been approximately

251, while their contribution to capital stock may be figured as \$813,050. To this may be added the sum of \$1,112,900 subscribed by the 268, newly admitted State bank and trust company members, the remainder of the increase in capital of Federal Reserve Banks being due to the automatic enlargement of the stock ownership of former members due to additions to their capital stock and surplus.

The fact that the system has steadily increased in numbers and in strength is in striking contrast with the decline in total resources which, although moderate, shows, as already remarked, the reaction from the peak level. This decline in resources has been due to the gradual reduction of the amount of reserve bank advances and is best reflected in the change in the item of total earning assets, which was reported at the close of June, 1920, as \$3,183,275,000, a figure which must be compared with a figure at the present time of approximately \$2,060,495,000. The decline of approximately \$1,120,000,000, thus reflected as the outgrowth of the year's operations in connection with earning assets should be compared with the increase in the same item during the year ended June 30, 1920, amounting to \$829,000,000. The volume of earning assets is therefore now very little less than it was at the close of June, 1919. It is an interesting fact that the rate of reduction during the second half of the two-year period in question has been so nearly identical with the rate of expansion during the first half/ of the period. The position of the system has thus been brought well back toward the point at which it stood when the war restrictions upon financial and productive activity began to be eliminated, not long after the armistice. Of special interest in this connection is the fact, to be more fully referred to at a later point, that the reduction in the amount of bills held by the Federal

Reserve System has been so noteworthy. Bill holdings at the close of June, 1920, were not far from \$3,000,000,000, while the situation at the close of June, 1921, showed slightly more than \$1,800,000,000 in bills on hand. A falling off in round numbers of over one-third, or \$1,200,000,000, in bills/^{held}represents the results of operations during the past year. Included in this reduction, it should be noted, has been a decline in the bills secured by Government obligations, which have fallen from approximately \$1,300,000,000 at the close of June, 1920, to approximately \$648,000,000 a year later: Other bills discounted amount, at the present moment, to a little less than they did a year ago, the net conclusion being, therefore, that to date the process of credit accommodation, so far as the Federal Reserve Banks are concerned, has altered but little the amount of commercial paper discounted, but has taken effect primarily in the restriction of the loans collateralized by Government war obligations.

NOTES AND DEPOSITS. Of special interest to the general student of banking in connection with the operations of the Federal Reserve System during the past year are the changes in the volume of outstanding Federal Reserve notes as contrasted with changes in the deposit liabilities of the Federal Reserve banks. Comparing the figures given a year ago with those now compiled, it will be found that whereas at the end of June 1920, the volume of Federal Reserve notes in circulation, was approximately \$3,117,000,000, the total now in actual circulation is approximately \$2,634,000,000 - a falling off in round numbers, therefore, of over \$480,000,000. As contrasted with this reduction in the circulating currency of the system is to be noted a fall in total deposits from approximately \$1,916,000,000 a year ago to \$1,686,000,000 on June 29, 1921. Since there has been but little change in the volume of Government deposits during the year, the reduction which is thus shown to have occurred has taken place primarily in member bank reserve deposits and may be regarded as amounting to about \$191,000,000. The remainder of the decrease is partly due to the withdrawal of foreign government deposits. This should be contrasted with a growth in deposits during the preceding year amounting to about \$14,000,000 and a growth in notes of approximately \$617,000,000. Attention was called a year ago to the fact that the immense increase in the note circulation during the year 1919-1920 was undoubtedly due in some measure to the fact that a larger amount of circulating currency was required because of the great advance in prices and the consequent necessity of carrying a larger supply of money in pocket with which to meet ordinary requirements. The recession in the total amount of notes in circulation may be ascribed to a movement exactly parallel but opposite in direction. As prices have fallen the factors already referred to have lost in intensity, while other factors which had

tended to enlarge the circulation of Federal Reserve notes - such as the process of substituting them for gold and silver and exporting/ to South American and West Indian countries - have ceased to operate. Indeed, in some cases the reverse flow has doubtless set in. The significance, therefore of the situation is found in the fact that the reduction in outstanding circulation which has occurred represents a corresponding change in the actual use of notes by the public. The movement of the items "notes" and "deposits" may be followed to good advantage in the brief table which is herewith submitted.

(In thousands of dollars.)

Dates.	Federal Reserve notes in actual circulation	Total deposits of Federal Reserve Banks.	Net demand deposits of reporting member banks.
June 25, 1920	3,116,718	1,916,086	11,347,041
Oct. 22, 1920	3,356,199	1,816,289	11,240,588
June 29, 1921	2,534,475	1,685,788	9,989,313

BANKING SITUATION ABROAD. Although tendencies in trade and prices in foreign countries have been in many respects parallel to those which have been observed in the United States, the situation has been widely different in respect to banking and credit. Foreign banking institutions have not shown the reduction either in notes or in deposits which has been observed in the United States, and such changes as have occurred have apparently been sporadic and in a far less degree governed by definite influences. This is probably due to the fact that in many European countries it has been necessary for the Governments to rely far more steadily and more largely on banking aid than has been true in the United States, so that the conditions

prevailing in the central banks of those countries have not, as in this country, directly reflected the condition and needs of business. The two items which stand out in foreign bank reports as of special interest to observers in this country are those of notes and deposits.

The considerable reduction in the circulation of bank notes amounting to more than 15 per cent in the case of Federal Reserve notes between June 25, 1920, and June 29, 1921, already observed has not been paralleled abroad. In England, currency notes to the extent of some £ 15,000,000 have been withdrawn in the course of the year, but bank notes have been increased by £ 5,000,000, with a resulting net decrease of £ 10,000,000, or 2 per cent in the total paper circulation. In France and Italy there has been an increase in the circulation during the year, amounting to 8 per cent in the first-named and 11 per cent in the last-named country. In Germany the total of Reichs-und-Darlehnskassenscheine in circulation amounted to 63,600,000,000 marks at the end of May, 1920, and 80,900,000,000 marks on May 28, 1921, or an increase of 27 per cent for the year.

Note circulation - England, France, Italy, Germany.

End of -	England	France	Italy	Germany
	Currency and Bank of England notes	Notes of Bank of France	Notes of three banks of issue.	Reichs-und-Darlehnskassenscheine
	000,000 £	000,000 francs	000,000 lire	000,000 marks
May, 1920	452	37,915	16,861	63,584
May, 1921	442	38,233	18,765(*)	80,882

(*) End of March, 1921.

The note circulation is a more significant factor in the study of credit conditions on the Continent than in England or the United States. During the past year deposits of member banks reporting to the Federal Reserve Board have decreased almost 12 per cent and earning assets of the Federal Reserve Banks 35 per cent. In England no reduction is shown between the end of May, 1920, and May, 1921, in the deposits at the Bank of England, while government and other securities held have been increased by almost £ 11,000,000.

Deposits - England, France, Italy, Germany.

End of -	Eng-land. ¹	France ¹	Italy	Ger- ¹ many.
	Deposits with Bank of England.	Deposits with Bank of France.	Deposits with 3 banks of issue.	Deposits with the Reichsbank.
	000,000 £	000,000 francs.	000,000 lire.	000,000 marks.
May, 1920	118	3,751	2,264	17,024
May, 1921	128	3,041	2,461 *	14,094

(1) Includes Government and private deposits

(*) End of March, 1921

DISCOUNT OF WAR PAPER. As already observed, perhaps the most interesting element of change in the portfolios of reserve banks during the past year has been the lessening of the volume of war paper, or, to use the technical expression, "bills discounted secured by United States Government obligations." These, as already seen, have fallen off to approximately \$648,000,000. A gratifying feature of the post-war development of the nation's investment and financial mechanism has been the ability that has been shown on the part of the public to absorb the outstanding obligations of the nation, both in short and long term form.

The existence of substantial investment capacity has laid the foundation for the absorption of Government bonds and certificates, while the policy of the Treasury Department in meeting market rates of interest has enabled both member and reserve banks, which had become large holders of "war paper", to reduce this element of their portfolios in very material degree. The situation has been well illustrated by the statement made by the Secretary of the Treasury on June 8 in which he showed that the amount of Treasury certificates pledged with Federal Reserve Banks was only \$55,000,000, while of a total of over \$4,000,000,000 of Victory notes only \$188,000,000 were in the hands of member banks in leading cities. The wholesale transfer of the evidences of Government indebtedness from the banks to the people has been aided by the Federal Reserve System, which no longer encourages the carrying of such paper by preferential treatment of loans collateralized by public obligations. During the year such preference, originally granted in aid of the placement of Liberty bonds, has practically disappeared.

The disposition of investors to absorb and "digest" Government obligations, taken in conjunction with the policy of the Federal Reserve System already referred to, has tended strongly to curtail the large holdings of paper collateralized by Government obligations which had been built up during the war and post-war expansion period in the Federal Reserve Banks. The progress during the year 1920-21 may be contrasted with changes during the year 1919-20. At the close of June, 1919, the total volume of paper secured by Government war obligations held by Federal Reserve Banks was about \$1,573,000,000, and operations during the following year had reduced the amount by only \$300,000,000. Progress during the past year has thus been more than twice as rapid. The situation is reflected in the following table:

Holdings of Bills Discounted by Federal Reserve Banks.

(In thousands of dollars)

	June 25, 1920.	Sept. 3, 1920.	Dec. 3, 1920.	June 29, 1921.	Percent- age decrease
Secured by Govern- ment war obliga- tions.....	1,277,980	1,332,892	1,160,685	647,761	¹ 51.4
All other	1,153,814	1,412,035	1,616,116	1,123,801	² 30.5

¹ From Sept. 3.

² From Dec. 3

RESERVE CHANGES. As during the year 1919-20, so during the past year, the primary changes in the reserve situation of the United States have been due to alterations in gold holdings. The striking feature of the year has been the resumption of gold movement into this country, with the result that the gold reserves of Federal Reserve Banks have been increased to the extent of about \$493,000,000. The following brief table shows the movement of reserves as between the close of June, 1921, and the corresponding date a year earlier.

(000 omitted)

	June 25, 1920.	June 29, 1921.	Per cent of increase.
Total gold reserves.....	\$1,969,375	\$2,461,931	25.0
Legal tender notes, silver, etc	139,230	163,527	17.5

Changes in the gold position of the United States were of such significant importance as to call for special review in the June, 1921, issue of the Bulletin, where they were fully set forth, and they need receive only brief treatment at this point. As was then explained, the specie history of the United States since the end of November, 1918, approximately the date of the armistice, may be divided into two periods, the first extending from that date through August, 1920; the second from the close of August, 1920, to approximately the present time. During the

first of these periods gold was moving largely out of the United States, although from April to August, 1920, the movement was somewhat irregular, while during the second of the periods the movement has been reversed. Roughly speaking, therefore, the year now under consideration coincides with the dates within which the reversal of this gold movement has occurred. The total net importations of gold from the close of June, 1920, to June 10, 1921, may be stated as \$483,607,213.

Imports and Exports of Gold.

	Imports	Exports	Excess of exports (-) or imports (+).
July 1, 1919-June 30, 1920	\$150,540,200	\$466,420,606	-\$315,880,406
July 1, 1920-June 10, 1921	615,445,634	132,838,421	+ 483,607,213

Corrected to June 10, 1921.

Speaking of the entire period since the armistice, the survey in the June issue of the Bulletin stated the situation as follows:

For the period as a whole, the United States imported \$744,000,000 of gold and exported \$700,000,000, so that the net addition to the country's stock of gold is \$44,000,000. It should be noted that this is a comparatively small amount; that the gains in gold since the recent gold movement set in have not much more than offset the losses of gold between the removal of the gold embargo in June, 1919, and September, 1920. It should further be noted that imports of gold have come from one group of countries, while exports have gone to another group. From the armistice to August, 1920, \$375,000,000 of gold (net) left the United States, going largely to Japan, Argentina, China, British India, Hongkong, Spain, and Mexico. From September, 1920, to the present time, \$419,000,000 (net) was imported, largely from England, France, Sweden, and Canada.

These figures require some modification, due to the fact that two months have elapsed since the final date to which they refer. Making this allowance, it may be said that the net addition to the country's stock of gold from the armistice to June 10, 1921, is approximately \$120,000,000. As will be seen from comparison with figures already given, the bulk of the importation of gold during the past year has been added to the reserves of the Federal Reserve Banks, and since there has been but little demand for gold for actual circulation, it has remained there.

The great shipments of gold to the United States have been the result of the slackening and disorganization of trade and the disturbance of financial relationships. In consequence of these influences it has been necessary to find some means of making settlement for the most necessary shipments of commodities, and gold shipments have proved to be the most available method of liquidating a part at least of current obligations. How far the inward gold movement will go can not now be predicted, but it should be noted that such importations, even when entirely deposited in the Federal Reserve Banks, are by no means the sole measure of their increasing liquidity. The improvement in the reserve ratio resulting from such deposits of gold shows a technical increase in banking strength, since it results in the enlargement of the supply of specie available for meeting any demands that may be brought to bear upon the reserve banks. In the following table are shown the average monthly reserve ratios during the last six months of 1920 and the first six months of 1921, with figures computed for purposes of comparison and designed to show the movement of the ratio as it would have been had no increase in reserves taken place since June 25, 1920:

Average Monthly Reserve Ratio.

	Actual	Hypothetical (*)
1920		
July	43.7	43.5
August	43.7	43.3
September	43.3	42.7
October	43.1	42.0
November	43.7	42.2
December	44.7	42.5
1921		
January	47.5	43.8
February	49.6	44.6
March	50.2	44.0
April	53.8	45.6
May	56.4	46.8
June	59.1	47.9

(*) With reserves remaining unchanged at the June 25, 1920 total of \$2,108,605,000.