

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

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The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of June and July, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities declined in June but employment was maintained at last month's high level, freight shipments were exceptionally large, and the volume of wholesale and retail trade continued heavy. Wholesale prices showed a further decrease.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries, which makes allowance for seasonal variations, was four per cent lower in June than in May, and stood at about the level of the late winter. Mill consumption of cotton, steel ingot output, and sugar meltings showed particularly large reductions. The value of permits for new buildings and of contracts awarded declined in June more than is usual at that season.

The Department of Agriculture forecasts on the basis of July 1 condition a large increase in the cotton crop, a slight reduction in the corn crop, a winter wheat crop of about the ^{same} size as last year, and a spring wheat crop which will possibly be about forty million bushels below 1922.

The number of factory employees at work in June in the country as a whole was about as large as in May, though a reduction is reported by New England establishments. The proportion of factories reporting

full time operations decreased and consequently average earnings per employee were smaller. Wage advances continued to be reported in June, but they were not nearly so numerous as in April or May.

TRADE:

Distribution of commodities, as measured by railroad freight shipments, was active throughout June. The number of cars loaded exceeded one million in each of four successive weeks, and in the week ended June 30 was the largest on record.

The volume of wholesale and retail trade in June was about the same as in May and continued to be substantially larger than in 1922. Sales of groceries and dry goods were much larger in June and this increase was reflected in an advance of 4 per cent in the Federal Reserve Board's index of wholesale trade. This index, which makes no allowance for seasonal changes, was 9 per cent above the June, 1922 level. Department store and mail order sales were smaller, as is usual at this season, while sales of reporting chain stores were at about the same high level as in May. Stocks of merchandise at department stores were reduced about 6 per cent.

WHOLESALE PRICES:

The decline in commodity prices, which began late in April, continued during June and the first two weeks of July and the index of the Bureau of Labor Statistics for June was 2 per cent less than for May. The largest decline amounting to 4 per cent occurred in the prices of building materials, and decreases were shown also for all the other commodity groups, except house furnishings which remained unchanged. During the first half of July price declines were shown for wheat, sugar,

petroleum, and lead, while the price of corn and hides advanced.

BANK CREDIT.

Banking developments between the middle of June and the middle of July largely reflected the payment of income taxes on June 15, dividend and interest payments at the turn of the half year, the demand for additional currency for the July 4 holiday, and the return flow of currency after that date. At the end of the period the volume of member bank and Federal Reserve Bank credit in use was approximately at the same level as a month earlier. At the Federal Reserve Banks the amount of discounts for member banks on July 18 was about \$100,000,000 larger than on June 13, but this increase was practically balanced by a decline in holdings of acceptances and Government securities.

During the month of June gold and gold certificates in circulation increased by over \$40,000,000, and this increase is reflected in an equivalent decline of gold held by the Federal Reserve Banks.

Money rates were slightly firmer as is usual at this season of the year.

FEDERAL RESERVE BANK
OF CLEVELAND

July 23, 1923.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Crissinger:

I have been considering the practical effect of the Amendments to Regulation "J" which are to go into operation on the 15th prox. In this connection certain questions have arisen in my mind which did not occur to me, or apparently to the other Governors, at the time of the recent Conference in Washington. The importance of these questions is of such moment that I feel I should bring them to your attention.

You will recall that the Amendments to Regulation "J" in effect divide banks into two classes, namely, those which have agreed to remit at par and those which have refused to do so. The refusal to handle checks for collection and the imposition of the collection service charge will under the revision of the Regulation be made in all cases where the bank which has refused to remit at par, is involved. As you know, there are a considerable number of banks which have not formally agreed to remit at par, but the number of banks, on which the Federal Reserve Banks have difficulty in collecting checks at par without expense, is small.

In the Fourth District we have been collecting without difficulty at par checks drawn upon 275 banks which have not formally agreed to remit at par. The checks on these banks have all been collected at par through member or non-member banks and accounted for to us without cost.

Peculiar considerations enter into some of these arrangements which do not involve hostility to the par clearance system. For example, the financial condition of certain of these banks is such that we prefer to collect checks drawn upon them through a banking institution in the same community which is familiar with the condition of the drawee bank, rather than to send these checks directly to the banks on which drawn.

In other instances the arrangement is one of convenience to the collecting and paying bank, in that settlement between them is made at intervals which they arrange to conform to local conditions thereby simplifying their own operations. A typical instance where the convenience of the collecting and paying bank is served

by such an arrangement occurs where the paying bank accumulates currency and the collecting bank accumulates exchange. In such cases it is a real service to the bank making the collection to have the paying bank settle with it in currency.

In some cases which have come to my attention the importance of this arrangement is such that it would engender hard feeling if the bank making collection for us was deprived of adjusting its currency and exchange balances. In fact we have a number of member banks who are very insistent that checks drawn on the non-member banks in their communities be sent to them for remittance to the Federal Reserve Bank. In most of these instances I believe the failure of the paying bank to agree to remit at par has not been due to hostility to the par collection system, but merely to the fact that the arrangement worked out best serves the convenience of the paying, as well as, the collecting bank.

Another phase of this indirect collection at par without expense arises through the operation of the Clearing House Associations. We are collecting checks drawn upon 80 non-member banks in the Fourth District which have not formally agreed to remit at par, through members of the various Clearing House Associations in the District. In most of these instances the paying bank is not a member of the Clearing House Association but its checks are cleared through a member.

In this connection I wish to call your attention to the fact that in the published statement of the Board made with reference to the revision of Regulation "J" it is stated that the collection system is now in operation between banks which in number are about 92% of all banking institutions and which have approximately 98% of the total banking resources of the country. This statement, it seems to me, is subject to question in that it appears to be predicated upon a computation which includes the banks on which the Federal Reserve Banks are collecting checks indirectly through member and non-member banks as outlined above. It has occurred to me that the critics of the par clearance system may seize upon this statement as constituting a claim by the Federal Reserve Board which is not justified by the facts.

Upon reflection I feel that the difficulties which it seems to me must be met if the revision of Regulation "J", already published goes into effect on the 15th prox., might be avoided by an Amendment thereof in the following form:

"No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds to the Federal Reserve Bank, or to make payment at par to its collecting bank.

"Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by, or emanating from any non-member bank which refuses to remit at par in acceptable funds to the Federal Reserve Bank, or to make payment at par to its collecting bank, it shall make a charge for the service of collecting such check of one tenth of 1%, the minimum charge to be 10 cents for each item."

Under this suggested revision of the Amendments to Regulation "J" it seems to me that the number of banks to which it would be applicable would be reduced to the banks which have shown active hostility to the par clearance system and would not involve disturbance of the existing satisfactory arrangement for collection of checks drawn upon the large number of banks which, although they have not agreed to remit at par, are paying their checks at par in a manner which is entirely satisfactory from the point of view of the Federal Reserve System. It would also obviate the necessity of causing dissatisfaction of many member banks which are collecting these checks at the present time.

I understand that in the Seventh District the number of banks which have not agreed to remit at par is approximately 306, but only six of these banks are actively opposing the collection of their checks at par. In our district the figures are 277 banks which have not formally agreed to remit at par including only two banks which will not remit except upon presentation of their checks by this bank through an Agent. In one of these instances the checks are not handled by reason of pending litigation.

I am advised that the Dallas bank has in its District 123 non-member banks on which checks are collected by it at par without expense through other banks in the same communities, but I do not know the number of banks which are actively opposing par clearance in that district.

I assume that the figures given above are typical of conditions in the other Federal Reserve Districts with the possible exception of Boston.

To my mind they emphasize the fact that if the present revision of Regulation "J" goes into effect on the 15th prox., the result thereof will be to create a great deal of avoidable criticism of the Federal Reserve Collection System. My own thought is that in the last analysis the only banks at which the revision of Regulation "J" was aimed, were those which are now seeking to break down the par clearance system by compelling the Federal Reserve Banks to make collection of their checks, if at all, by the expensive and burdensome method of

employing an agent to present them at their respective counters. The revision of Regulation "J" made for this purpose, now appears to be broader in its scope than is necessary or advisable.

If it be suggested that the Regulation as now revised might be construed by the banks to relate only to those banks which require presentment of their checks by agents of the respective Federal Reserve Banks, I feel that this is not a practice which should be adopted because it will afford the opponents of par clearance ground for claiming that the Regulation purports to be uniform in its operation as to all banks which have not agreed to remit at par, but the Federal Reserve Banks are construing it in violation of its express terms to be applicable only to the small number of banks which are actively hostile to the par clearance system. This, it seems to me, would be a criticism which could not be answered.

I trust that you will pardon the length at which I have written in this connection, but in view of the importance of the matter I have felt that I could not adequately express my views briefly.

Yours very truly,

(Sgd) E. R. Fancher,
Governor.

F.N.m