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1919-1933.

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THE UNITED STATES  
AS A  
FINANCIAL CENTRE  
1919-1933

WITH REFERENCE TO  
IMPORTS AND EXPORTS OF  
CAPITAL

*By*

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## PREFACE

IN these days wider interest is being taken in financial and monetary questions and a larger body of persons is attempting to understand the working of the elaborate mechanism of the modern economic world. The author of this work, when holding a Studentship of the University of Wales, was attracted to the field of finance as a result of a study of the financial reconstruction of Austria by the League of Nations. Elected to a Fellowship of the same University, the writer spent one year in the University of London collecting material under the direction of Mr. N. F. Hall, M.A., University College of London. The work should have been presented for the Ph.D. degree, but before this was possible an appointment as assistant lecturer was taken up in the Department of Economics, University College of North Wales, Bangor. The study was continued and is now presented in book form.

He who is interested in the financial relationships of countries to-day is fortunate, for they offer some of the most fascinating problems to be found in any sphere. But he is less fortunate, possibly, than students in other departments of economic study because the data are not so easily available. That is true even of the United States, a paradise for those who love statistical material. But happily the U.S. Department of Commerce provides a statement of the balance of international payments which is of considerable service, and officials of that Department deal most courteously with inquiries. Further-

more, the monumental work undertaken by Messrs. Beckhart, Smith (and others) on the organization of the New York Money Market proves invaluable.

Even if our evidence were complete, there would inevitably be much controversy as to the causes and effects of capital movements. This present work does not pretend to finality, but presents a summary of the available evidence and draws conclusions which can be proved correct only in course of time. For the sake of completeness, a sketch is given of the extraordinary events which took place in 1933 in the United States, but it must be remembered that that year was abnormal. From the point of view of this study, however, it is interesting to observe certain tendencies of both a satisfactory and unsatisfactory character. One of the most hopeful of President Roosevelt's policies has been the large additions to the purchasing power of the farmers and industrial workers. Redistribution of income is an obvious economic necessity for the solution of America's internal problems. But internationally the President has not been so successful. It is true that the latest figures issued from the Department of Commerce show a considerable increase in United States exports for the year ended June 30th 1934. Although in the short period that may seem a fortunate development, if a longer view be taken it must be emphasized that large increases in capital exports from the United States and large increases in goods imports into the United States from other countries would have been of greater value in the restoration of international balances. Possibly wiser counsel

will prevail, and we expect much from a President who has acted more boldly than any other living statesman.

The writer owes a debt of gratitude for the opportunities afforded for study in the British Museum, to members of the staff of the Library of the London School of Economics, to the very efficient Librarian of the Institute of Bankers, to Mr. N. F. Hall, and to Mr. J. Morgan Rees, University College of North Wales, Bangor.

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## CHAPTER I

### THE ECONOMIC AND FINANCIAL IMPORTANCE OF THE UNITED STATES

THE United States owes her prominence as a financial centre to a combination of extraordinary circumstances.

In the first place, she has vast productive resources. The area of the country is approximately three million square miles, and within the continent there are valuable deposits of coal, petroleum, iron, and other essential minerals and an extensive territory of fertile land which make it possible, as recent estimates indicate, for her to contribute 'more than a fourth of the world's material production, including nearly a fifth of the foods, more than a fourth of the non-metallic raw materials, over two-fifths of the fuels and other sources of power and the metals and altogether nearly a fourth of all primary products as contrasted with more than a fourth of all the manufacturing values'.<sup>1</sup>

Industry has been highly rationalized, and the use of power and labour-saving machinery have made possible a large increase in production with a smaller number of workers in employment. For example, between 1919 and 1929 production rose by 42 per cent., whereas the number of wage-earners was reduced by 6 per cent.

The United States has further been assisted by an extensive home market—a market which is not only greater in extent but whose purchasing power of recent years has been far in extent of that of any European home market. Moreover, the American home market can be successfully exploited

because there are no barriers of language or of customs.

Accompanying the improvements in industrial technique, there has proceeded an improvement in banking organization. At the beginning of the century the banking system was inefficient in many respects. Most of the banks were simply independent units, and their reserves were scattered and immobile. In 1908 a National Monetary Commission was appointed to make investigation of the banking and currency systems throughout the world, and it was hoped it would be possible to devise a system which would be better fitted to meet the particular needs of the United States. In 1914 the Federal Reserve System came into operation, and the new banking structure succeeded to some extent in making credit more elastic and co-operation more possible over the entire country.

Finally, the economic and financial strength of the United States was substantially increased as a result of the last European War. Before the War, she was a debtor country to the tune of about 3,000 million dollars, but it was not long before she was called upon to be the chief foreign supplier of the combatants. European governments began to offer bonds to purchase supplies of food, &c. The French, German, Canadian, and Italian governments issued bonds in 1915, and there was an Anglo-French credit bond issue of 500 million dollars. Europe also obtained capital by disposing on American markets of large blocks of American securities previously held as investments, and neutral governments also borrowed from the United States. In 1916 and the early part of 1917 borrowing continued but on a much larger scale,

for European countries and also for Latin American governments and corporations. For a couple of years from that date the volume of foreign lending declined, but the net result of her war activities was to transform the United States into a creditor nation on long-term account by the end of 1918. She maintained that position from that time onwards. Thus in four years a revolution had taken place—a revolution which was not only to affect the entire world and to transform debtor-creditor relationships—but which was to affect profoundly the banking structure of the United States and to subject the Federal Reserve System to a severe test in banking capacity.

In 1932 American net private long-term foreign investments were estimated at about 12,000 million dollars, and outstanding obligations of foreign governments held by the American Government at the end of 1932 amounted to about 11,800 million dollars. These are substantial totals with vital consequences both for the United States and for the outside world. What are especially interesting, however, are the annual movements of long- and short-term capital to and from the country, which indicate for each year the long- and short-term investment position of the United States, the annual changes in the receipts on account of war debts payments, interest and dividends on loans abroad, tourist movements and immigrant remittances, shipping and freight payments and governmental transactions, gold and currency movements and the trade in commodities. All these items in the balance of international payments reflect the financial and credit conditions and policy of the United States itself and also



external financial, monetary, and economic conditions.<sup>2</sup>

In the following pages these movements will be analysed each year from 1919 to 1933. A summary of the institutions of the American money market and a brief explanation of the balance of international payments precedes the analysis. This survey and explanation is given shortly in the two succeeding chapters.

CHAPTER II  
THE MONEY MARKET AND ITS  
RELATIONS WITH THE FEDERAL RE-  
SERVE SYSTEM

*A brief explanation of the post-war money  
market in New York*

'THE money market in any country includes all the funds available for productive, commercial or speculative purposes together with the mechanism by which all the funds are gathered together from holders not requiring their use and distributed in answer to the needs of various classes of borrowers.'

In the United States the real financial centre became New York because its geographical position was suitable for import and export trade and for domestic trade, although the intention of the Act which brought the Federal Reserve System into being was to co-ordinate the banks by the Federal Reserve System at Washington. Bank balances accumulated in New York naturally for exchange purposes, and with the growth of the stock market money flowed easily to the city. A further advantage was enjoyed. The market for bank acceptances and U.S. government securities was centred there, and since it was found desirable to centralize the purchase of these by the twelve Federal Reserve Banks, naturally its authority has been greatly increased. It grew more important year by year, especially after 1914, when European and other countries found it necessary to borrow heavily in the United States, and it was able to rival older money markets successfully.

Thus New York became for different reasons the most important money centre in the United States, and in that city funds are collected in markets which can be placed under two heads:

1. The Long-term Money Market in which the principal borrowers are governments and companies and for which the sources of funds are many and varied. Successful issues of stocks and bonds are of course dependent upon the amount of confidence inspired by them and upon the volume of funds available for lending in this market.

Domestic capital issues can be classified as corporate, state, country and municipal, farm-loan banks, and war-finance corporations. Of these, corporate issues predominate, forming usually two-thirds of the total. State, country, and municipal come next in importance and farm-loan banks lag far behind. War-finance corporation issues ceased to be made after 1919.

It has been noted that bonds usually decline in popularity with a rising stock market, and vice versa. That was specially marked in the abnormal situation which arose from 1928. In that year, stock issues constituted about one-half of the total of domestic corporate issues, and in the following year common stocks held the field and bonds fell almost completely out of favour. After the stock market crash, however, those who had boosted stocks were discredited, and stock issues in 1932 formed only about 7 per cent. of the domestic corporate issues.

Foreign capital issues are either governmental, state, or provincial and municipal issues including governmentally guaranteed or controlled corporate issues or private corporations. In post-war years

the tendency has been more and more for the new capital obtained by foreign capital issues to be for corporate issues and not for purely governmental finance. All of the governmental guaranteed or controlled issues (with some minor exceptions) consisted of bonds and notes, while in the case of new capital for private corporations, although bonds and stocks have predominated, preferred and common stocks have also been prominent and there have been a few issues of preferred and common stocks.

This business is comparatively new because before 1896 there were practically no public offerings of foreign securities in the American market. More typical was the flotation of American securities in European markets. From 1900 to 1913, however, issues of foreign securities increased in the United States. The amounts varied from 175 million dollars in 1905 to 19 million dollars in 1910. Most of the foreign issues were governmental, but a substantial amount was underwritten for foreign corporations and for American corporations with their principal business abroad. Particular interest was expressed in issues for Latin American countries, but the Far East (especially Japan) took a fair share. European financing was third on the list and Canada last.

2. The Short-term Money Market which includes loans made on the Stock Exchange, in the Commercial Paper Market, in the Acceptance Market, and the Government Security Market. The rates and amounts of these loans, like those in the long-term capital market, are dependent upon the confidence inspired by the borrowers and upon the supply of funds available. Certain of these

submarkets exert a strong pull upon money market funds, and other sections of the money market have suffered in the past from scarcity. That is why, so far as the short-term money market is concerned, rates for different kinds of loans are at different levels at the same period. The time factor is also an important consideration. Some borrowers may desire to borrow for a short period only and will be called upon to pay at a different rate from those who borrow to finance operations that may take months for completion.<sup>2</sup> It will be found that the several sub-markets have developed in such a way as to meet variations in needs and serve very definite purposes.

*The Call Loan Market.* The most important open market in the United States to-day is the Call Loan Market. Under the old banking system this market in New York was a great convenience to bankers all over the country who were in need of some liquid form of investment in which they could place funds which could be relied upon as secondary reserves, and the loans in this market could be terminated at any time and were of great service in this respect.<sup>3</sup> Bankers' balances were concentrated in the city therefore, and the demand loan secured by stocks and bonds became a distinctive feature of the American monetary system. At the present time it is not only sensitive to national financial and economic developments reflecting Federal Reserve Bank and member bank activities and the general condition of business within the United States, but records international movements since the growing interdependence of countries has resulted in a situation in which money acknowledges no national barriers but flows easily

to the place at which the return on it is greatest and surest.

There are two kinds of loan, but both are secured by Stock Exchange collateral.

1. Call or demand loans which are made (theoretically) for a day according to the rules of the New York Stock Exchange. Sales of securities have to be paid for on the following full business day, so that there is a daily demand for funds. The supply of and demand or call loans are very varied and depend upon factors of international strength and weakness.

2. Time loans which are secured against Stock Exchange collateral for a period of from thirty to ninety days. These loans are not negotiated on the floor of the Stock Exchange, but are made either directly between the borrowing broker and the lender or through a money-lender. They increase in popularity when the popularity of demand loans declines, and vice versa. For example, the total of time loans declined considerably from August 1928 to October 1929, when the demand for call loans was most pronounced, and increased afterwards when the demand for call loans grew less.

There are three different call money markets in New York City.<sup>4</sup> Brokers may obtain funds from a money-broker or from the banks, or they can make use of the New York Stock Exchange, where the dealings are more impersonal and where the rates for money are published daily. Data for totals of brokers' loans<sup>5</sup> can be obtained from the Stock Exchange reports or from the reports of the New York member banks. The former include borrowings from New York banks and trust

companies, private banks, brokers and foreign lending agencies, whilst the latter are divided (since 1926) into three groups:

- (a) loans for own account ;
- (b) loans for account of out-of-town banks ;
- (c) loans for account of others, which include domestic and foreign corporations, investment trusts, individuals, and foreign banks.

Before 1926 no distinction was made between loans for account of out-of-town banks and loans for the account of others, but both were grouped under the heading of loans for account of correspondents.

Each day in the call loan market two call money rates are registered.

1. The market rate, which is the rate for new loans.
2. The renewal rate, which is the rate at which old call loans are renewed. This rate applies to the greater part of the total loans outstanding and is the representative rate agreed upon by the lending institutions.

*The Acceptance Market.* 'An acceptance is a bill drawn by the seller of goods upon the purchaser or upon his bank and accepted through endorsement either by the purchaser or on his behalf by his bank.'<sup>6</sup> Thus the acceptance market is bound up intimately with foreign and domestic trade in goods. But before 1914 the major proportion of American trade was financed in sterling and other foreign currencies. In that year, however, the Federal Reserve Act instituted the dollar acceptance. National Banks and trust companies were authorized to accept drafts drawn on them for the purpose of financing international commerce, and certain kinds of business within the United States,

and America became an acceptance banker. In later amendments to the Act extended provisions were made for acceptance banking. Through an amendment on December 24th, 1919, authority was given for the organization of corporations for the purpose of engaging in international or foreign banking, and these organizations were also authorized to accept bills or drafts drawn upon them subject to the limitations of the Act and the regulations of the Federal Reserve Board.<sup>7</sup>

The purpose of this legislation was to create a need rather than to supply one, because previously the demand had not been great owing to the pull exerted by other sections of the money market. But it was hoped that the establishment of an official acceptance market would correct these tendencies and would furthermore be of service to the Federal Reserve System in carrying through its discount policy. Thus 'it was to deprive the call loan market of its prestige'. Further, 'the bill market was to serve as an equalizer of interest rates between nations. With a rise in discount rates, it would 'draw in' funds from abroad which formerly had been accomplished through sterling finance bills, absurdly high call loan rates, the sale of securities at panic prices and currency premiums. It was to serve as the equalizer of the 'cash' and reserve position of domestic banks, both those within and without New York City. It was to provide reasonable facilities for the financing of America's foreign trade, especially for the increasing exports of manufactures and for the increasing volume of raw materials.'<sup>8</sup>

When the Federal Reserve Act was passed, the only types of acceptance credits provided for were



those involving the importation and exportation of goods, but it was not long before the Act was amended to allow the banks to accept drafts growing out of the domestic shipment of goods, whilst later amendments provided for acceptances against goods stored in domestic warehouses and for the creation of dollar exchange in certain countries as trade required. Acceptances growing out of transactions involving the storage in or shipment between foreign countries were then recognized by regulations of the Federal Reserve Board, so that now there are the following five transactions provided for by acceptance credits:

1. Acceptance credits provided for the importation and exportation of goods.
2. Acceptance credits provided for the domestic shipment of goods.
3. Acceptances against goods stored in domestic warehouses.
4. Acceptances for the creation of dollar exchanges in connexion with which trade is conducted.
5. Acceptances growing out of transactions involving storage in or shipment between foreign countries.

The organization of the acceptance market has had to be built up by degrees. At first there was little or none (strictly speaking), and the machinery for buying and selling acceptances had to be developed as interest grew. This was sedulously fostered by the Reserve Banks, which had been given power both to discount acceptances for member banks and to purchase them in the open market, and in addition to use them with gold reserves as collateral for the issuing of currency.

By 1919 the situation was greatly improved. The first substantial bill market corporation with adequate capital was organized. Other houses followed. Several large banks opened acceptance departments for the purchase and sale of acceptances or created dollar subsidiaries.

Member banks of the Federal Reserve System, trust companies, foreign banking corporations, acceptance institutions, and private banking firms make purchases of acceptances, but bill brokers have usually found their chief source of funds in the Federal Reserve Banks which buy on their own account and for foreign account, and the Federal Reserve System's fate has been closely linked up with the development of the acceptance market through the use made of these funds, as will be seen. It was not intended, however, that the Federal Reserve System should be the sole support of the acceptance market, and it was hoped that American and foreign investors would be induced to invest in dollar acceptances. But for years the total holdings of the accepting banks in the United States of purchased bills did not average more than one-twentieth of the total outstanding.<sup>9</sup>

The rates at which brokers are willing to purchase bills have been largely determined by the Federal Reserve buying rates for own account and the Reserve Banks' lending rate.

*The Commercial Paper Market.* For a number of transactions in which the bankers' acceptances cannot be used, commercial paper is of service. As the Acceptance Bulletin puts it: 'One of the striking differences in the characteristics of commercial paper and bankers' acceptances is that the former may be availed for general financing, while

the bankers' bill is specifically identified with individual self liquidating transactions in commodities either in transit or in storage.'<sup>10</sup>

Commercial paper is the evidence of credit with or without security suited generally for a short-term transaction in ordinary mercantile business. For such purposes it was formerly extensively used by the best known and rated business concerns in the United States. The dealers or brokers specializing in this type of business conducted a large and profitable trade. They were always able to gauge accurately the state of business by the statements of their clients and the volume of paper seasonally offered. General business found it to its advantage, economically, to go to the outside investment market through brokers when in need of funds to purchase merchandise of raw materials for manufacture. The names of such borrowers were well known throughout the country, their paper bought the best rate, and their banks were relieved of the necessity of tying up their own resources. In some years, in fact, the amount of commercial paper outstanding was often as high as 1,800 million dollars. The usual maturity of commercial paper handled is from four to six months, and the typical rate usually considered is that on prime paper of this length of maturity, although there may be many other rates prevailing based upon the credit position of the borrower. The notes issued are sold to commercial paper houses and these sell them to the banks, so that the parties to the market are the borrowers, the commercial paper houses, and the banks. The borrowers of recent years have been firms of medium size, as large firms have made use of stock and bond

flotations to finance themselves. The number of commercial paper houses is not large. Their principal offices are in New York, Chicago, and Boston, but they operate in districts far afield by means of branches, circularization, and salesmen. Banks which regularly purchase commercial paper are principally the country banks which find in the commercial paper market a ready outlet for seasonal surpluses, but city banks also buy commercial paper to serve as secondary reserves, for it has a useful quality in that it can be quickly liquidated. It is, further, a safe investment because of the wide range of firms borrowing by this method.

The commercial paper rate is usually higher in March, April, May, September, October, November, and December because the demand owing to seasonal needs is keener at these times than in slacker months. The rate is basic for interest rates on brokers' loans, and both call and time loans fluctuate with reference to it. In fact the rate is indicative of changes in the money market as a whole.<sup>11</sup>

#### *The Federal Reserve System and the Money Market.*

The Federal Reserve System supplies funds to the money market in various ways—through direct loans to member banks on the basis of discounted or rediscounted paper, through the purchase of acceptances and U.S. and other securities, through loans on gold made to foreign central banks, through the deposit of funds in foreign banks. All these place funds at the disposal of the member banks—to be used by them either to reduce their indebtedness at the Reserve Banks, to meet a

demand for currency, or an export demand for gold, or to build up their reserve balances. It is only in the latter case that an increase in Reserve Bank credit provides a basis for the growth in member-bank credit.<sup>12</sup> By the terms of the Federal Reserve Act the Reserve Banks are not allowed to make loans direct to the Stock Exchange market. Thus they have direct connexions with the money market through the bill market and the government security market, and indirect connexions through the operations of the member banks. The amount of credit granted is shown in their balance-sheet in the item 'total bills and securities', which can be divided into (a) total bills discounted, (b) bills bought in the open market, (c) total U.S. government securities.

The credit policy of the Reserve Banks can be made effective in three ways.

1. By changes in discount rates.
2. By changes in open market operations.
3. By public and private appeals and admonitions addressed to the institutions functioning in the money market.

1. The first method was considered at one time to be the most effective weapon for the control of credit at the disposal of the Reserve Banks. What does it involve? It means that member banks are allowed to obtain additional funds for the disposal of borrowers in the money market by borrowing at a certain rate on eligible collateral from the Reserve Banks, and generally speaking that discount rate determines the range between which other money market rates may be expected to move. For example, when the call rate is above the discount rate, a bank may borrow in order to

lend money on the call loan market. Again, should the rates in the open market for time loans fall below discount rates, the banks would not be inclined to tie up surplus funds in this type of loan.<sup>13</sup>

A discount rate policy can be generally successful given three sets of circumstances:

- (a) A centralized discount policy control.
- (b) Changes in discount rates which *precede* changes of money market rates.
- (c) Control by the discount rates authority over *all* the funds coming into the market.<sup>14</sup>

That these three sets of circumstances have not existed to make effective the policy of the Reserve Banks is seen in the fact that it has been found necessary by them to influence the money market in other ways.

2. The open market operations of the Reserve Banks are becoming each year of greater importance. The Tenth Annual Report of the Federal Reserve Board observes that 'the system has not relied upon changes in discount rates as the only means of influencing the general credit situation'. In fact, the open market weapon is now considered more reliable in controlling credit than the discount rate because the Reserve Banks can take the initiative. When, for example, the Reserve Banks sell government securities the funds of the commercial banks are depleted. To make good the deficiency they usually have to borrow from the Reserve Banks, which can then make use of their first weapon—the discount rate. When the Reserve Banks buy, the funds at the disposal of the commercial banks are increased.

3. If, however, the Reserve Banks consider that

the member banks are not restrained from borrowing unduly or from promoting unwise policies in the money market, then they can make use of their third weapon—that of appealing directly or indirectly to the member banks to adopt a different course of action. This kind of moral persuasion is not always successful, for a course of action is often considered desirable by the member banks which may run counter to wider financial interests. It has often proved short-sighted, but none the less desirable.

In these ways, therefore, the credit policy of the Reserve Banks is expressed in the money market, and it was hoped that the establishment of the Federal Reserve System would provide stability and certainty in the distribution of credit.<sup>15</sup> That it has not done so is due mainly to the fact that it has been faced with abnormal situations for which the organization was not adequately prepared by the terms of the Federal Reserve Act. The Reserve Banks have been confronted with the problem of attempting to control the volume of credit when the member banks have been enabled to make themselves largely independent of borrowing because of an extraordinary flow of gold to the United States since 1914. Then the Reserve System has been unable to control the *use* to which credit is put. The Tenth Annual Report stated that 'the economic use of credit is to facilitate the production and orderly marketing of goods and not to finance the speculative holdings of excessive stocks of material and merchandise'. Since, however, the Reserve Banks were not generally in a position to make that prohibition effective, funds obtained from them were used in speculative

activities, and the System could do little more than comment on the misuse of borrowed funds. A further extension of credit has been made possible by means of a more intensive use of member bank reserves. The member banks are required under the Federal Reserve Act to maintain average reserves equal to 13 per cent. of their average daily net demand deposits plus 3 per cent. of their average daily time deposits. An undue increase in time deposits permits a vast expansion of credit. The Federal Reserve Board report for 1926 pointed out that whereas in March 1922 the ratio of reserve balances at the Reserve Banks to total net demand plus time deposits was 8.1 per cent., at the end of 1926 this ratio had declined to 7.3 per cent. This decline in ratio means that member banks were able to comply with legal reserve requirements with a considerably smaller amount of reserves than would have been necessary had the proportion of time to demand deposits remained unchanged—that is, to add a large amount to their loans and investments without a corresponding increase in their reserves. The table on p. 20 shows demand deposits and time deposits of reporting member banks from the end of 1923 to the end of 1932.

It will be seen from the table that the growth in time deposits was almost continuous from 1923 to 1930 and was greater in that period than the growth in demand deposits by over 2,500 million dollars.

Another important reason for the failure of the Federal Reserve System has been the lack of unity in the organism. Uniformity of action is almost impossible over the wide area served by the banks.



The same difficulty was encountered by the administration in enforcing Prohibition. The twelve separate Federal Reserve Banks form twelve separate independent centres of twelve separate independent districts, and each Federal Reserve Bank decides its own credit policy. Such a system was considered necessary because of the diverse economic conditions of the United States. But it has been extremely difficult to persuade the separate Reserve Banks to take joint action.<sup>16</sup> Moreover, all banks in the United States are not members of the system.

TABLE I DEMAND DEPOSITS AND TIME DEPOSITS OF REPORTING MEMBER BANKS

1923-32

*In millions of dollars*

Year (end of)	Demand deposits	Time deposits	Increase or decrease (-) from the previous year		Percent- age of Time deposits
			Demand deposits	Time deposits	
1923	16,376	8,651	..	..	34.5
1924	18,468	9,805	2,092	1,154	34.7
1925	19,260	10,653	792	848	35.6
1926	18,922	11,440	-338	787	37.7
1927	20,105	12,765	1,183	1,325	38.8
1928	19,944	13,453	-161	688	40.3
1929	19,112	13,070	-832	-383	40.6
1930	18,660	13,654	-452	584	42.4
1931	15,985	11,453	-2,675	-2,201	41.8
1932	14,965	10,527	-1,020	-926	41.3

Then the Reserve Banks have been prevented at different times from making the necessary restrictions of credit by action of the Treasury or by pressure of public opinion, to which they are very sensitive.<sup>17</sup> Finally the Federal Reserve

System can be blamed for not taking correct action swiftly as occasion demanded. To some extent its failure has been due to incapacity to make adjustments because of its unawareness of the real meaning of money market movements.

Within these limits, therefore, the Reserve Banks have been able to manipulate the volume of funds within the New York money market.

CHAPTER III  
THE BALANCE OF INTERNATIONAL  
PAYMENTS OF THE UNITED STATES

*An explanation*

ONE cannot properly estimate a country's economic and financial strength, the nature of its dealings with the outside world and the effect of these on the domestic money market, without reference to its balance of international payments. Such a record is especially important from the point of view of international movements of capital, but in the case of many countries is not forthcoming.

In the United States, however, from 1922 onwards the Department of Commerce issued statements for the balance of international payments of that country which have served a useful purpose, particularly in clarifying the international movements of capital. Many of the figures contained therein, as those responsible for their presentation take care to emphasize, are necessarily estimates and the results therefore cannot attain to any official standard of accuracy. That is so because 'whoever wishes to study the international movement of capital finds himself face to face with difficulties which do not exist or at least exist to a much smaller degree in the sphere of international movements of merchandise. In the latter case he finds definite foreign trade statistics covering all categories of merchandise, for every transition of the frontier is registered on both sides with an accuracy and a detail of classification whose efficiency increases in proportion to the raising of the

customs barriers hindering their movement. It is otherwise with the movement of capital, for no customs officer is in a position to follow its volume and value. In many cases, statistics of public issues can only be referred to with considerable prudence, and comprise at the present time a much smaller part of the total movement of capital than was the case before the war. To attempt to form an idea of this movement necessitates recourse to private statistical information and to estimates, and to pursue a full and detailed inquiry into this subject, such as that undertaken by the International Chamber of Commerce concerning the movement of merchandise between Europe and the United States of America, is impossible owing to lack of data.<sup>1</sup>

The difficulties in drawing up a statement of the balance of international payments for the United States are very apparent. It is pointed out, for example, that statistics of exact totals of investments held in the United States by investors of the different foreign lending countries are not easy to obtain. In some cases, substantial holdings of foreign dollar securities by foreigners have been reported as American dollar issues to avoid payment of taxation in their own countries or to avoid extraordinary penalties proposed to check the flight of capital. In others, holdings of American shares have been held in custody by American banks. All one can say with safety is that investors of Great Britain, France, Germany, Holland, Switzerland, Italy, Belgium, Greece, and Japan hold large investments in the United States and that it is probably safe to assume that British holdings constitute the most important fraction of the total.

Not only are the geographical sources of funds unascertainable for the most part, but also the amounts are difficult to calculate with accuracy during the course of a year. It is common knowledge that from 1922 on, foreign funds played a large part in the New York money market. They accumulated in the following ways. Long-term securities floated in America to pay for exports of goods were often greater in amount than was needed at the moment and the funds were kept in the country as bank balances to be drawn upon for later use. Further long-term borrowers were in the habit of building up by degrees the large sums of dollar exchange required to meet dividend payments, sinking fund requirements, and bond redemption maturities. This money was put out in Wall Street when opportunity offered. New York became, moreover, a favourite market for the deposit of funds from all the world for many reasons. The city increased in importance as a clearing house for international trade, the bill market developed, and further, since the United States was for some years one of the few countries with a stable currency, the dollar became international in character and central banks adjudged that country to be the safest gold standard market in which to keep their foreign exchange holdings. Then capital took flight to take a share of America's prosperity from countries with depreciating currencies or from countries in which capital levies or other drastic measures were proposed. But although it was believed that large volumes of foreign purchases and sales of securities were made in the United States, for some years correct totals of these were not obtainable, as large brokerage houses

usually do not separate foreign orders from domestic ones. The Finance and Investment Division of the Department of Commerce on Stocks and Bonds tried, however, to arrive at these from questionnaires issued annually from 1925. In 1928 it was ascertained that foreigners (including Canadians) dealt more heavily in American securities than Americans dealt in foreign securities, that America acquired a rather important portfolio of foreign securities, but that foreigners acquired on balance a portfolio of American securities about four times as great. Filling up the questionnaires, however, was optional, and in 1929 about a dozen important houses that reported for 1928 refused, and consequently the official totals arrived at were smaller, despite universal opinion that foreign activity in security markets in that year had rarely or never been exceeded. Particularly during the first three-quarters of 1929 the Wall Street Boom produced a steady influx of foreign funds, and there was a sustained movement in those months from London to New York, which explains the weakness of sterling against the dollar. The following quotations from the American press in that year are of interest:

*New York Times*, August 29th, 1929. 'Brokers with foreign connexions report a particularly heavy volume of foreign purchases of American railway shares.'

*Whaley-Eaton Service*, September 7th, 1929. 'It is indicated that the Bank of England has arranged with British private financial institutions to check the flow of investment funds to the United States . . . to avoid an increase in the bank rate.'

*Washington Star*, October 27th, 1929. 'The stock market crash of last week was primarily precipitated by foreign liquidation of American securities.'

*Wall Street Journal*, November 1st, 1929. 'Foreign orders of American securities are said to be coming from every important European country.'

By the middle of 1929 a considerable volume of foreign funds had been put out into American acceptances, into brokers' loans, into Treasury certificates, and other short-term loans. The *Commercial and Financial Chronicle* reported on August 31st, 1929, that 'high money rates in this country in all branches of the money market are acting as a magnet to draw funds from all parts of the world'. But by October 27th, 1929, the *New York Times* reported that European money was rushing home, fleeing from the easing money market and deflated stock prices, and on October 29th it stated that 'dollar exchange continues to decline owing to the large withdrawals of European balances from America. Estimates of this recall of European capital from Wall Street range from 50 million dollars up to 100 million dollars.' There was, however, a considerable return of funds to New York within a short period, as call money rates were still sufficiently high to warrant placing foreign funds on call. Later, they left again. These extraordinary movements during 1929 to and from New York are scarcely if at all reflected in the Department of Commerce figures for that year, since the account closes on December 31st, but they can be checked from the graph<sup>2</sup> (on p. 29).

Again, the balance of trade is only a rough

estimate. 'No country's recorded commodity export values are an exact measure of the total cash claims which result from shipments abroad. Nor do official import statistics indicate the exact value of the cash claims which must be met abroad. These differences are due to numerous factors very seldom attributable in any way to improper practices or errors by traders or customs officials. Certain commodity transactions, such as transfers of ships or sales and purchases of bunker fuel, are not reported in the official statistics, silver transactions are separately recorded by the Customs Bureau, while certain goods enter the country by illegal means.'

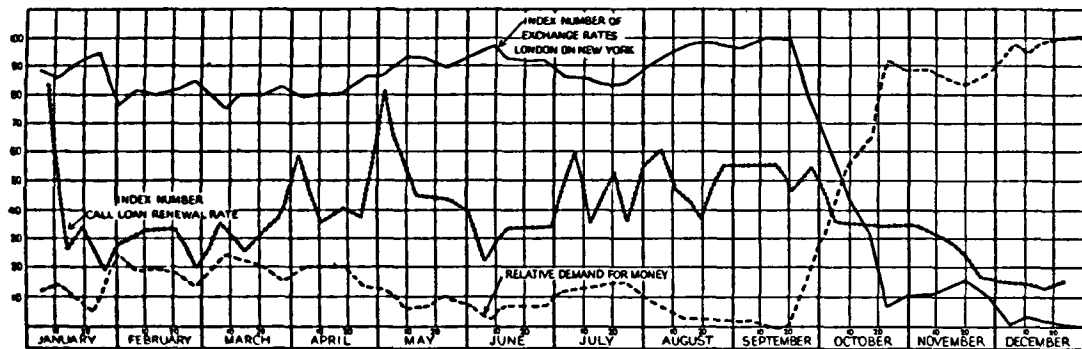
Furthermore, the value of certain items cannot be determined absolutely exactly and the compiled statement usually shows an item representing transactions unaccounted for. The *Economist* (July 1st, 1933) points out that the actual balance as published by the Department of Commerce contains 31 items, of which several are merely totals and are further divided elsewhere: 'The long-term capital account, for example, which provides 3 items in the final balance is the resultant of no less than 24 distinct items. The item of miscellaneous current items is a composite of 13 separate items, including such minutiae as ship chandling, sales and purchases of newspapers, cablegrams, &c. There is of course a danger, perhaps insufficiently realized by the compilers, that such close attention to detail may give the final result an appearance of accuracy which it hardly deserves and to the cynic the appearance of hundreds of entries of several million dollars under the heading 'errors, omissions, &c.' is sufficient commentary upon pain-



staking estimates of items which are measured in hundreds of thousands.'

Keeping these difficulties and drawbacks in mind, let us make a closer examination of the meaning and content of the balance of international payments. A table for reference is given at the end of this chapter.

According to the definition given in the text of the report of the Department of Commerce, 'a balance of international payments is a statement of the compiled or estimated amounts of all the invisible and visible exports and imports of a country during a given period so arranged as to show their comparative size, their total (the international turnover), their influence upon the international gold movement, the 'detractive' and promotive relationships between them and the volume and character of the nation's foreign exchange transactions.'<sup>4</sup> Thus it may be looked upon as a kind of income statement showing a nation's income and outgo—from what sources the nation derives its income abroad and how that income is spent or invested; for what purposes payments are made abroad and by what means claims held by foreigners are met. All cash claims by Americans against foreigners are classified as 'credits', while the debit column contains the corresponding cash claims by foreigners against Americans. For example, when an American sells goods to a foreigner, the American holds a claim which requires a transfer of funds to the United States. The American wishes to be paid in dollars, but the foreigner pays in pounds sterling, francs, &c. The banks assist in making the settlement. They buy the claim on the foreigners and sell it through the exchange



**CHART I: SHOWING THE RELATIVE DEMAND FOR MONEY IN 1929 AS EVIDENCED BY EXCHANGE RATES. LONDON ON NEW YORK**

**Note: To the end almost of the ninth month, demand for money in New York was exceedingly strong, but after that date demand was stronger in London**

**Cf. National Monetary Commission, U.S.A. 1910. E. W. Kemmerer, Seasonal variations in relative demand for money and capital in the United States Chapter V.**

market to Americans who need foreign currencies to pay tourist bills abroad, to send remittances to relatives or friends in foreign countries, or perhaps to purchase foreign securities. If the claims which Americans hold against foreigners are in excess of the claims held by foreigners against people in the United States, the balance may be settled by the foreign debtor by shipments of gold into the United States, by foreign bank deposits, or by the purchase of securities, &c.<sup>5</sup>

The credit column shows the extent to which the American dealings with foreigners increase the purchasing power of the United States; the debit side shows the extent to which the United States added to the purchasing power of foreign countries.

The visible items of American foreign trade are merchandise, silver, and gold, but the invisible items are more numerous. The Trade Information Bulletin No. 698 defines an invisible export as 'whatever thing or "satisfaction" a country parts with or whatever service it renders in any international transaction which tends to move an equivalent amount of money into the country within a given period but which is not recorded in the customs statistics of the country'. An invisible import can be defined in similar terms. The invisible items of the balance sheet include freight payments, expenditures by American tourists abroad, expenditures by foreign tourists in the United States, interest on American private funds abroad (long and short term), interest on foreign funds in the United States (long and short term), war-debts receipts (principal and interest) and other governmental transactions, immigrant re-

mittances, charitable and missionary contributions, &c. These are the invisible items on current account and they represent the export and import services. For example, American tourist expenditures abroad are invisible imports, because American residents abroad who have their sources of income in the United States make purchases of foreign goods, and although these goods are not entered in the import statistics, their purchase affects the balance of payments in exactly the same way as the consumption of goods in the United States. Similarly remittances made by immigrants in the United States to their families at home are invisible imports because the immigrants pay for goods and services which are consumed abroad. On capital account, private long-term capital movements can be classified thus: Credit items include bond redemption and sinking fund payments received from foreigners, resale to foreigners of direct investments, foreign stocks and bonds resold to foreigners, new direct investments in the United States, and American stocks and bonds sold to foreigners. The debit items include new foreign issues offered in the United States (less refunding to American underwriters' commissions and deductions for bonds issued below par), new direct investments abroad by Americans, foreign stocks and bonds bought back from foreigners, redemption and sinking fund payments to foreigners, and purchase of American properties. Short-term unfunded items can be placed under the following heads:

*Inward or credit movement (Invisible exports).*

1. Short-term commercial paper (promissory

notes, acceptances, finance bills, and other commercial paper) transferred by Americans to foreigners.

2. Increases in accounts payable to foreigners or open book credits (open claims against Americans) arising when American importers buy from foreigners on credit.

3. Increases in bank accounts with American banks in favour of foreigners (export of open claims against foreigners).

*Outward or debit movement (Invisible imports).*

1. Short-term commercial paper (see above) transferred to Americans by foreigners.

2. Increases in accounts receivable by American exporters (open claims against foreigners arising when foreign importers buy from Americans on credit).

3. Increases in bank accounts with foreign banks in favour of Americans (import of open claims against foreigners).

The balance of international payments of the United States is divided into current account, capital account, and gold and currency shipments. There is no clear demarcation between the current account and the capital account. 'The current account shows the value of goods and services exchanged for cash with foreigners; the capital account shows the value of securities transferred and of short term credits granted or received. Gold and currency shipments are considered in an independent category. Gold shipments may at times be used to settle current balances, while again they

may be the result of changing conditions in the world's capital markets.<sup>6</sup>

The detractive and promotive relationships referred to in the definition of the balance of international payments may operate directly through the exports and imports of short-term capital or through changes in purchasing power (for example, foreign borrowers obtaining more purchasing power are able to make additional purchases of American goods, services, and securities), or indirectly through changed interest rates and price levels or through immediately altered foreign exchange rates, &c. These relationships are explained in the Department's report by the following statements and illustrations.

1. When the outside world takes more of a particular export (visible or invisible) it can acquire the foreign exchange with which to make settlement only by importing less of some other visible or invisible and/or by inducing the exporting area to import more of some visible or invisible.

2. The increasing of a particular item of export (visible or invisible) tends to reduce all other items of export and to increase all imports; the increasing of a particular item of import tends to reduce all other imports (visible or invisible) and increase all exports; the reducing of a particular item of export tends to increase all other items of export and to reduce all imports; and the reducing of a particular item of import tends to increase all other imports and reduce all exports.

The report illustrates this 'law of detractions' and 'promotions' by reference to war debt receipts which, as it indicates, are (or rather involve) an invisible export. It points out that if this invisible

export reduces the purchasing power of the taxpayers of the debtor nations and thereby reduces the American export of merchandise, there is a detractive influence by one export item upon a second export item (merchandise). If, however, the large savings to American taxpayers resulting from these Treasury receipts be devoted either to increasing American merchandise imports or invisible imports (loans to foreigners, tourist expenditures, immigrant remittances, foreign charities, &c.), there is a promotive influence by one export item upon several import items. The report points out that the effect of tariffs (or of other restrictions of international trade, travel, or loans) can be expressed as follows: 'Whatever tends to diminish an item in one column of the balance of payments tends to promote every other item in that column and to detract from every item in the other column', e.g. restrictions on the import of goods into the United States tends to increase the import of gold.

It can be shown that to some extent trade follows the loan. Undoubtedly loans and investments play a part in encouraging the export trade. That is to be expected because, 'in the absence of very special circumstances orders for machinery, equipment, construction material and the like tend strongly to go to the country providing the development funds, while the loan negotiations stimulate general enterprise in the lending country and widen the contact between its producers of other classes of goods and the consumer in the borrowing country'.<sup>7</sup> In the interests of the United States it is of course important that these loans continue since production in a number of industries is at

present directed towards the export trade. The following table shows the percentage of the annual production of each of the designated commodities shipped abroad in 1929.<sup>8</sup>

TABLE II. PERCENTAGE OF ANNUAL PRODUCTION OF CERTAIN COMMODITIES SHIPPED ABROAD FROM THE UNITED STATES IN 1929

<i>Commodity</i>	<i>Per cent</i>	<i>Commodity</i>	<i>Per cent</i>
Cotton . . .	54.8	Gasolene . . .	13.8
Tobacco . . .	41.2	Typewriters . . .	40.1
Lard . . .	33.3	Printing machinery . . .	29.2
Wheat . . .	17.9	Sewing machines . . .	28.0
Copper . . .	36.0	Agricultural machinery . . .	23.3
Kerosene . . .	34.7	Locomotives . . .	20.8
Lubricating oils . . .	31.0	Passenger automobiles . . .	14.0

Other items are of course needed sometimes to support the trade balance. The table following shows the extent to which the balance of trade was supported from 1922 to 1933 by loans and investments and/or by expenditures of American tourists in foreign countries and gold imports.<sup>9</sup> It will be noted that in 1924, 1929, 1931, and 1932 the favourable balance of trade was larger than the estimated new nominal capital obtained from the flotation of foreign securities (publicly offered) in the United States, whereas in other years the reverse was the case. In 1923 and 1928 the favourable balances of trade were 375 million dollars and 1,037 million dollars respectively, whereas foreign securities publicly offered were 831 millions greater in 1928 than in 1923.

It is our purpose next to review the changes in the balance of international payments of the United States by periods from 1919 to 1932, and to note



TABLE III/ COMPARISON OF EXCESS GOODS EXPORTS, NEW FOREIGN SECURITY ISSUES, AMERICAN TOURIST EXPENDITURES ABROAD, AND EXCESS OF IMPORTS OF GOLD OVER EXPORTS 1922-33

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933
<i>Debits</i>												
New foreign security issues	764	420	969	1,076	1,125	1,336	1,251	671	906	229	29	12
Tourist expenditures	360	500	600	660	640	681	715	821	762	568	446	221
Excess of imports of gold over exports	235	295	216	..	72	..	..	120	278	..	11	..
<i>Credits.</i>												
Excess of goods exports	719	375	981	683	378	681	1,037	841	782	334	289	225
Excess of exports of gold over imports	..	..	..	102	..	154	272	.		176	..	173

the causes and effects of these. A detailed account of Federal Reserve Board policy will not be given, but only a broad outline to show the repercussions of the changes in the balance-sheet upon the internal credit position of the country. Nor is it possible to indicate exactly in each year the compensating elements in the balance, since space does not permit; but reference will be made to items in the balance which have obviously increased in certain years in response to decreases in other items. The table above gives a fairly clear picture of the way in which certain payments 'made up' for other movements in the eleven-year period.

TABLE IV. BALANCE OF INTERNATIONAL  
PAYMENTS OF THE UNITED STATES BY  
PERIODS 1919-33. (Yearly averages)

*In millions of dollars*

<i>Item</i>	<i>1919-21</i>	<i>1922-4</i>	<i>1925-9</i>	<i>1930-3</i>
Merchandise trade as reported . . . . .	+2981	+692	+724	+408
Shipping and freight services . . . . .	+66	+2	-56	-58
Tourist expenditures . . . . .	-133	-400	-555	-414
Immigrant remittances . . . . .	-600	-372	-284	-178
Interest and dividends . . . . .	+60	+260	+488	+484
War debts receipts . . . . .	+128	+199	+200	+118
Government transactions . . . . .	-335	-13	-45	-76
Miscellaneous current items* . . . . .	+61	+75	-28	-2
Balance on current account	+2228	+443	+444	+282
Net gold movement . . . . .	-158	-248	+67	+15
Net currency movement . . . . .	+30	-	-42	-40
Balance, gold and currency	-128	-248	+25	-25
Movement of private long-term funds† . . . . .	-706	-399	-517	+52
Government capital account . . . . .	-702	..	..	..
Net short-term capital account‡ . . . . .	-	+198	+184	-488
Balance on capital account	-1408	-201	-333	-436
Net investment items, errors, and omissions	-692	+6	-136	+179

*Source* Trade Information Bulletins Nos 814 and 819

\* Note that current account includes several items which are, strictly speaking, of a capital rather than current nature

† This item takes account of all security movements between the United States and foreign countries and includes international sales and purchases of long-term issues, new underwriting, sales and purchases of properties not represented by security issues, and security transfers resulting from redemption and sinking fund operations.

‡ This item measures the net change in the country's short-term position during the year. For an explanation of other items, see notes to Chapter III <sup>10</sup>

CHAPTER IV  
THE AMERICAN MONEY MARKET  
1919 to 1924

We have stated that by 1918 the United States was a strong creditor nation. During the War, the country's export trade expanded considerably and payment for the goods was made in part by foreign buyers by gold shipments (which amounted to over 1,000 million dollars), by the many billions of dollars in credits in favour of foreigners established by the U.S. Treasury, by the resale to the United States of American securities, and by private loans long and short term, including large book credits by industrial and commercial houses. In the immediate post-war years, the abnormal export surpluses continued and the creditor position of the United States was maintained.

The table on p. 40 gives a summary account of the balance of international payments (year-end totals) of the United States from 1919 to 1924.

The table indicates clearly the great financial strength of the United States in the immediate post-war years. Most prominent is the item showing the favourable balance of trade, which amounted to an impressive total in every year except 1923. The annual average surplus of goods exports was estimated at 1,836 million dollars. The favourable balances of trade were of course a familiar pre-war feature. What is a new phenomenon, however, as we have pointed out earlier, is the considerable lending power of the country in the war and post-war period. From 1919 to 1924 new net investment of private long-term funds amounted to 3,314

40 THE AMERICAN MONEY MARKET, 1919-1924  
million dollars. The outward movement was smaller in the last three years of the period, amounting to 1,200 million dollars. From 1919 to 1921 Americans largely bought foreign securities and repatriated American securities. On the other hand, from 1922 to 1924 foreigners bought securities offered in New York in large quantities.

TABLE V BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES 1919-24

*In millions of dollars*

	1919	1920	1921	1922	1923	1924
<i>Debits.</i>						
Movement of private long-term capital . . .	455	874	789	669		545
Short-term capital account (net) . . .	..	..	..	..	..	..
Tourist expenditures . . .	50	150	200	300	400	500
Immigrant remittances . . .	600	700	500	400	360	355
Gold and paper currency . . .	..	..	786	235	245	266
Miscellaneous items* . . .	2,618	358	148	16	27	5
Unestimated items, errors and omissions . . .	1,083†	1,240†	..	..	..	117
	4,806	3,322	2,423	1,620	1,032	1,788
<i>Credits.</i>						
Movement of private long-term capital . . .	..	..	..	..	18	..
Short-term capital account . . .	..	..	..	375	3	216
Commodity trade balance . . .	4,016	2,950	1,976	719	375	981
Gold and paper currency . . .	254	150	..	..	..	..
War debts receipts . . .	243	53	87	157	258	182
Interest and dividends . . .	50	50	80	225	250	305
Miscellaneous items* . . .	243	119	33	65	71	104
Unestimated items, errors and omissions . . .	..	..	247	79	57	..
	4,806	3,322	2,423	1,620	1,032	1,788

\* Includes government transactions and capital account, shipping and freight services, and miscellaneous current items.

† These figures would be considerably reduced if items of short-term credits for these years could be shown.

In the six-year period the estimated amount of new foreign issues (less commissions, discounts, and refunding) was 3,402 million dollars.

The total amount received in retirement of matured loans was 1,341 million dollars from 1919 to 1921, but it declined to 146 million dollars in the next three years.

Tourist expenditures and immigrant remittances averaged 750 million dollars annually from 1919 to 1924.

War debts instalments approximated 163 million dollars annually in the same period.

Income from American investments abroad averaged annually 160 million dollars a year.

Gold imports for the whole period amounted to 1,128 million dollars. Short-term capital movements in the first three years can only be guessed at—probably large amounts of short-term credits were made by the United States. But there was an inflow during the next three years of 594 million dollars.

It will be noted that in 1919 the year-end totals show that the credit side of the balance-sheet consisted mainly of a very large balance of trade. There was a net outflow of gold, and receipts were registered on account of war debts, interest and dividends on loans, shipping and freight services. About 44 per cent. of the favourable trade balance was supported by government credits. Tourist expenditures were small in amount, but immigrant remittances were an important invisible import. Accurate estimates for short-term credits are not available, and it can only be surmised that the totals were large. The outward movement of private long-term capital was estimated at 455

million dollars—an amount rather smaller than that given for immigrant remittances. Immediately after the War, of course, American underwriting of foreign securities was at a standstill since there was general financial and economic chaos, but from the last six months of 1919 a number of European governments floated issues successfully. Latin American financing also recovered and Canadian issues were more prominent.]

Within the United States the first half of 1919 was characterized by a slowing down of financial activity owing to depression in business and high interest rates, but in the latter half of the year a boom got under way in which the flotation of foreign issues participated as we have seen. Federal Reserve Bank credit expanded, and by the end of the year the total of bills discounted and bought by the Federal Reserve Banks had risen from 2,120 million dollars at the beginning of the year to 2,780 million dollars. Capital issues increased, and the total for the year amounted to 4,286 million dollars, of which 3,726 million dollars were domestic issues. Stock prices rose and stood at a high level at the end of the year, but bond prices declined throughout 1919. Brokers' loans made by reporting member banks in New York City moved from 826 million dollars in March to 1,305 millions in December, in which month nearly one-half were made on account of correspondents. Call-loan rates moved from 3.98 per cent. (average) in the first quarter to 8.65 per cent. (average) in the last quarter. Other rates also showed an upward tendency. The total volume of acceptances outstanding was 1,000 million dollars and was large enough to give the impression that the dollar acceptance would take

the place of the sterling bill. The volume of commercial paper was placed at 1,186 million dollars.

Thus at the end of 1919 it seemed that the stage was set for a boom. Meanwhile, however, the gold reserves of the Federal Reserve Banks had shrunk, partly owing to the continued export of gold, and in January 1920 the discount rates on commercial and industrial paper maturing within ninety days were raised from  $4\frac{3}{4}$  per cent. to 6 per cent. The advance, however, had little effect because the rise in prices promised profits sufficient to cover the increased cost of money.<sup>1</sup> In the middle of 1920, however, commodity prices collapsed and a severe period of deflation followed. Discount rates were raised further to 7 per cent. in June, but Federal Reserve Bank loans continued to increase for some time to cover the crisis period. Stock prices declined continuously, but bond prices began to rise in the last quarter of the year. Brokers' loans made by reporting member banks in New York City fell from the high level of December 1919 to 833 million dollars in December 1920. Call-loan renewal rates moved slightly down to 7.52 per cent. (average) in the last quarter of the year. The volume of commercial paper and of acceptances declined.

The international balance-sheet of year-end totals for 1920 in some items reveals the same course of boom and depression.

There was again a large favourable balance of trade, but it was smaller than that of the previous year because imports were heavy in volume owing to rising prices, to speculation in commodities, and a brief period of prosperity in Europe. The trade balance was supported by short-term credits to a



large extent and by outward movements of private long-term capital. The boom in foreign financing lasted until May 1920, but foreign security underwriting was handicapped from that time onwards to the end of the year by the prevailing slump. But, taking the difficulties into consideration, an astonishing volume of foreign securities publicly offered was recorded. Foreign countries were of course in dire need of capital and were willing to pay a high price for it. Moreover, they were in debt to the United States for current purchases and were forced to borrow.

The depression continued into 1921, but even in that year, as the international balance-sheet shows, the favourable balance of trade of the United States amounted to 2,000 million dollars, which meant that foreign countries were still going heavily into debt. Other items remained at about the same figure, but a net inflow of gold amounting to 786 million dollars was recorded, which reduced foreign indebtedness to some extent. There was general liquidation within the States. Loans and investments of reporting member banks declined and there was a large reduction in Federal Reserve Bank loans as compared with the previous year. The incoming gold was turned over by the member banks to the Federal Reserve Banks in reduction of their own indebtedness. Federal Reserve Bank credit averaged 2,198 million dollars for the year, of which 1,797 millions represented bills discounted, 91 millions bills bought, and 264 millions U.S. government securities purchased (as compared with 1919, when the total Reserve Bank credit averaged 2,623 million dollars, of which 1,904 millions represented bills discounted, 323 millions

bills bought, and 254 millions U.S. government securities purchased). Discount rates moved downwards towards the end of the year.

A decline took place in the total of capital issues in 1921 affecting foreign capital issues since domestic capital issues increased slightly. Stock prices declined to the third quarter of the year, but bond prices rose. Brokers' loans made by reporting member banks in New York City were reduced to 723 million dollars in September 1921, but rose in the last quarter and stood at 879 million dollars in December. Call-loan renewal rates stood at 5.11 per cent. (average) in the last quarter of the year. Other rates in the money market were also lower. The volume of acceptances and of commercial paper registered a decline.

From 1922 various attempts were made in Europe to relieve depression and to restore more normal conditions, and these attempts had noteworthy effects upon the balance of international payments (year-end totals) of the United States and the American money market.

In a sense the year 1922 marks a year of stock-taking so far as the inter-relations of Americans and foreigners are concerned.

The favourable commodity trade balance of the country declined to 719 million dollars. Increased payments were made on account of war debts and interest and dividends on loans, and a large inflow of 375 million dollars of short-term funds was recorded. Private long-term capital funds moved outward at a smaller rate than in 1921 because of prevailing unstable conditions throughout the world. Tourist expenditures increased and reached a total of 300 million dollars as compared with 50

million dollars in 1919. Gold imports were fairly large in amount.

The incoming gold rapidly exerted an influence on financial conditions within the United States. A liberal credit policy was followed by the member banks. Although their borrowings at the Federal Reserve Banks declined in 1922, the total of loans and investments of reporting member banks increased. The discount rate in New York moved down to 4 per cent. in June. But the total of Reserve Bank credit was less than in the previous year. A large volume of transactions on the Stock Exchange was reported, and the returns of reporting member banks from March 1922 onwards show a continuous increase to the end of the year in loans secured by stocks and bonds. Loans for account of correspondents started an increase and helped to swell the volume of brokers' loans throughout the year. Call-loan renewal rates moved to 3.76 per cent. (average) for the last quarter. Favourable money conditions and encouraging signs of a revival of business led to a substantial increase in total capital issues in 1922, particularly in domestic issues. The renewed interest in stocks is illustrated by the declining percentage of domestic corporate issues in the form of bonds. A slight increase took place in the volume of commercial paper, but the total of bankers' acceptances declined.

In 1923 a large increase in imports was recorded which outstripped the increase in exports and reduced the favourable balance of trade to 375 million dollars for the year. Payments on account of war debts and interest and dividends on loans increased. For the first time in this six-year period foreign purchases of American securities and their

own dollar securities, together with about 23 million dollars representing payment of matured loans, exceeded the volume of American investment abroad.) On the debits side of the balance-sheet, tourist expenditures again showed an increase. A further inflow of gold was recorded which enabled the member banks in the United States to meet credit requirements without recourse to the Reserve Banks, in spite of the fact that business was improving and there was an increasing demand for currency. The principal demand for member bank loans in 1923 was, however, for commercial, industrial, and agricultural purposes, and the volume of transactions on the Stock Exchange declined. The total of brokers' loans fell from 1,535 million dollars in the last period of 1922 to 1,183 million dollars in the same period of 1923. From April to November 1923 reporting member banks' loans for own account and for correspondents were reduced. Call-loan renewal rates stood at 3.8 per cent. (average) in the last quarter of the year. The total volume of capital issues declined somewhat, but domestic capital issues increased slightly. Private corporate financing was very large in amount. Stock prices declined to the third quarter of 1923 and rose in the last quarter, but bond prices declined throughout. The volume of acceptances and of commercial paper increased.

From the international balance-sheet (year-end totals) it will be seen that the favourable balance of trade of the United States increased in 1924, reaching a total of 981 million dollars. A considerable inflow of short-term funds was registered, continuing the movement which commenced in 1922 and reflecting the flight of capital from foreign

countries in some of which capital levies were threatened, and in part renewed long-term borrowing, the proceeds of which were often deposited temporarily in the United States. An increase took place in the payments for interest and dividends on loans. The large capital funds available were used in the American money market for the flotation of foreign capital issues, in which greater interest was being taken since business was taking an upward turn and the yields were higher than could yet be obtained domestically. Gold imports were again large in amount and tourist expenditures totals rose. It is interesting to note that from 1922 to 1924 these expenditures coupled with immigrant remittances (including charitable and relief expenditures abroad) totalled over 2,300 million dollars—about 200 million dollars more than the favourable balance of trade for those years.

At the end of 1924 the amount of Reserve Bank credit outstanding was no larger than at the end of the previous year, but the total fluctuated during the course of the year in response to gold and currency movements. Wisely or not, an easier credit policy was considered necessary by the Reserve authorities to assist Europe's return to the gold standard. Purchases of U.S. government securities increased steadily and holdings of these securities by the Reserve Banks moved from 133 million dollars at the end of 1923 to over 505 million dollars in July 1924. The funds thus placed in the money market were used by the member banks to repay their borrowings, and total holdings of discounted and purchased bills which at the beginning of the year totalled 1,078 million dollars

declined almost continuously to 318 millions at the end of July. 'Accordingly in the summer of 1924 with the member banks repaying their borrowings from the Federal banks it was considered advisable to get back more quickly into the open market and in order to accomplish this, the Federal Reserve rates were lowered. The New York rediscount rate, which had been  $4\frac{1}{2}$  per cent. since February 1923, was reduced to 4 per cent. on May 1st, 1924, on June 12th to  $3\frac{1}{2}$  per cent., and on August 8th to 3 per cent., but it was the concurrent lowering of the open market rates which was the more significant action. The New York average rate charged on bills bought in the open market was gradually reduced from 4.10 per cent. in January 1924 to 2.20 per cent. in August; the minimum authorized rate on acceptances bought in the open market, which was  $2\frac{1}{2}$  per cent. for bankers and 3 per cent. for trade in January, was brought down to 2 and  $2\frac{1}{4}$  per cent. respectively in June.'<sup>2</sup>

The abundance of credit cheapened money at first and promoted an increase in the activities in the money market. Altogether the year 1924 showed a rise of 1.5 milliard dollars in domestic capital issues over 1923. Foreign capital issues shared in this increase as we have stated. Stock prices stood at a high level at the end of the year and bond prices improved. From the beginning of the year the volume of transactions registered on the Stock Exchange began to rise and reporting member banks' loans on securities showed a similar upward movement.

Of particular interest in the table for brokers' loans made by reporting member banks in New York City are the amounts for account of

correspondents. It will be noted that the increase from March 1919 to December 1924 was greater than the amounts reported for own account of the member banks.

TABLE VI. BROKERS' LOANS MADE BY REPORTING MEMBER BANKS IN NEW YORK CITY 1919-24.

*In millions of dollars.*

<i>Period</i>	<i>Total</i>	<i>For own account</i>	<i>For account of correspondents</i>
1919 March	826	535	291
June	1,230	760	470
September	1,299	715	584
December	1,305	633	672
1920 March	1,080	449	631
June	943	425	518
September	868	341	527
December	833	358	475
1921 March	788	320	468
June	773	338	435
September	723	350	373
December	879	483	396
1922 March	1,028	538	490
June	1,404	823	581
September	1,474	824	650
December	1,473	770	703
1923 March	1,636	816	820
June	1,480	752	728
September	1,213	560	653
December	1,203	571	632
1924 March	1,416	696	720
June	1,448	796	652
September	1,688	1,014	674
December	1,863	1,074	789

The volume of acceptances and of commercial paper rose. A growth in the volume of acceptance was, however, inevitable from this time forward, as apart from the support given to the market by the Federal Reserve Banks, dollar acceptances came to be normally used more and more for the finance of foreign storage and shipment of goods

and also because at times the acceptance rates were lower in New York than in foreign countries.

The table below gives a picture of American financial conditions by quarterly periods from 1919 to 1924, and reference must be made also to relevant tables in the Appendix. With the use of these we are able to summarize the main tendencies in the period.

TABLE VII. INDEXES OF AMERICAN FINANCIAL CONDITIONS, 1919-24. (YEARLY AVERAGES)

	1919	1920	1921	1922	1923	1924
<i>Security Prices.*</i>						
1. Stock Prices (421 stocks)	70.7	64.2	55.2	67.7	69.0	72.8
2. Bond Prices (40 High Grade Bonds)	69.07	59.70	60.15	74.11	71.72	74.32
<i>Interest Rates per cent.</i>						
3. Bond Yields (60 High-Grade Bonds)	5.25	5.88	5.79	4.94	4.98	4.85
4. Call-Loan Re- newal Rate†	8.65	7.52	5.11	3.76	3.80	2.74
5. 60- to 90-Day Bankers Ac- ceptance Rate†	4.43	6.21	4.33	3.91	4.13	2.39

\* Standard Statistics Index Number of Security Prices

† Last quarter of the year.

We have noted that each year there was a large balance of trade in favour of the United States even after 1922, when world affairs were becoming more normal. Moreover, substantial sums were received on account of interest and dividends on loans and war debts repayments, and there was a significant inflow of short-term capital from 1922



onwards. The commodity trade balance was at first supported by government credits, and when these were withdrawn, by short-term credits. The debit side of the balance also showed large outward movements of private long-term capital with the exception of one year, 1923, when foreign investments in the United States exceeded those made from America abroad. There was a large inflow of gold each year from 1921 onwards and immigrant remittances and tourist expenditures were considerable in amount.

We have seen these movements reflected in the American money market in the six-year period. We have marked the fluctuations in the totals of capital issues, domestic and foreign, of commercial paper and bankers' acceptance volumes, and have observed their general response to trade and financial changes. In particular we have noted the main effects of inward movements of gold and foreign capital. We have shown that from time to time the member banks were able to repay their borrowings at the Reserve Banks and also were able to dispense with Reserve Bank credit because of the gold inflow. Reporting member banks in New York City increased brokers' loans from a total of 826 million dollars in March 1919 to 1,863 million dollars in December 1924. Loans for own account in the same period rose from 535 million dollars to 1,074 million dollars and those for account of correspondents more than doubled. It appears unfortunate therefore that by 1924 the Federal Reserve Banks saw fit to reduce the price of credit since from many sides there was evidence that money was plentiful and cheap. In fact the incoming gold was creating a situation in which it

would be impossible for Federal Reserve authority to be asserted quickly and effectively.

The year 1924 then witnessed a speeding up of forces in the American money market which were to spend their strength in the following five years.<sup>3</sup>

CHAPTER V  
THE AMERICAN MONEY MARKET  
1925 to 1929

FROM 1925 Europe achieved comparative prosperity and international trade and the international movement of investment funds grew apace. The progress of events in so far as they affected the United States is illustrated in Table VIII, which summarizes her balance of international payments (year-end totals) from 1925 to 1929.

It will be observed that as in the period 1919 to 1924, from 1925 to 1929 the United States had large favourable balances of trade except 1926, and the annual average surplus of merchandise exports was estimated at 724 million dollars. The total was very large in 1928, when exports exceeded imports by more than 1,000 million dollars. Foreign countries went also into debt to the United States on account of private long-term capital. In this period the United States reached the peak point as an exporter of long-term investment funds. In each year with the exception of 1929 there was a large outward movement of capital on long-term account. Great interest was taken in foreign investing. For four years, 1925 to 1928, there was a foreign security underwriting boom which smashed all previous records, stimulated by the comparative stability achieved in monetary and economic affairs internationally and the abundance of investment funds in the United States. From 1925 to 1929 exclusive of refunding, commissions, &c., American new underwriting averaged about 970 million

TABLE VIII. BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES 1925-9

*In millions of dollars*

	1925	1926	1927	1928	1929
<i>Debits</i>					
Movement of private long-term capital . . . . .	459	605	705	675	141
Short-term capital account . . . . .	61	..	..	188	80
Tourist expenditures . . . . .	560	498	528	552	638
Immigrant remittances . . . . .	360	264	255	276	265
Gold and paper currency . . . . .	..	112	..	..	135
Miscellaneous items . . . . .	13	122	116	225	263
Unestimated items, errors, and omissions . . . . .	..	..	801*	94	91
	1,453	1,601	2,405	2,010	1,613
<i>Credits</i>					
Movement of private long-term capital . . . . .	..	..	..	..	..
Short-term capital account . . . . .	..	350	900	..	..
Commodity trade balance . . . . .	683	378	681	1,037	841
Gold and paper currency . . . . .	42	..	99	232	..
War debt receipts . . . . .	187	195	206	207	207
Interest and dividends . . . . .	355	467	519	534	565
Miscellaneous items . . . . .	94	..	..	..	..
Unestimated items, errors and omissions . . . . .	92	211	..	..	..
	1,453	1,601	2,405	2,010	1,613

\* Large item probably due to incorrect estimates of capital movements.

Note Miscellaneous items include government transactions; shipping and freight services and miscellaneous current items

dollars a year. Direct investments abroad ranged from 90 to 335 million dollars a year.

It must be noted too that foreigners had extensive

influence in the American money market in the five years under review. The net result of international 'old' security transactions was a net inflow of long-term funds of over 2,000 million dollars. Not only were repatriations of foreign dollar issues high, but foreign purchases of American stocks and bonds reached in 1928-9 a total estimated at approximately 3,000 million dollars. In every year of the period these foreign purchases exceeded American repurchases of similar securities held abroad.

Net earnings on long- and short-term private investments abroad ranged from 355 million dollars in 1925 to 565 million dollars in 1929.

War debt instalments approximated 200 million dollars annually.

Claims against the United States represented by tourist expenditures and immigrant remittances, charities, &c., totalled over 4,000 million dollars. Tourist expenditures averaged about 550 million dollars a year with a high level of 638 million dollars in 1929.

From 1925 to 1929 there was a net export of gold estimated at 336 million dollars. In the period there was a large inflow of short-term funds but, as we have indicated, year-end data do not accurately reflect the movement since short-term funds were liable to flow outwards in large volumes during course of the year. In 1929 it was estimated that 3,000 million dollars of foreign short-term funds were held in the United States.

The general improvement in economic and financial conditions is reflected in the American money market. From 1925 the United States itself experienced an industrial and trade recovery which con

tinued until the fall of 1927, with but a slight deflation at the end of 1927 and the beginning of 1928. During the same period it also experienced a run of speculative and financial activity without parallel in financial annals.<sup>1</sup> In this chapter an outline is given of gold and capital movements 1925 to 1929, and an attempt will be made to show the extraordinary combination of forces which inevitably produced the climax in 1929.

In 1925 the credit side of America's international balance sheet (year-end totals) showed a smaller favourable balance of trade, rather larger payments on account of war debts and interest and dividends than in 1924 and a net outflow of gold. Balancing these items, as against 1924 there was a smaller outward movement of private long-term capital, a smaller outflow of short-term funds, and rather larger tourist expenditures and immigrant remittances.

Internally the export demand for gold prompted an increase in Reserve Bank credit outstanding in 1925 which was further added to by a growth in domestic current requirements and increased reserve requirements of member banks. From March onwards the open market policy of the Reserve Banks was to maintain holdings of government securities at a practically constant level, with the consequence that the seasonal growth in the demand for Reserve Bank credit was met through increased discounting and through larger sales of bankers' acceptances to the Reserve Banks. Member bank credit rose to higher levels and of that increase loans on securities took the greater part. In 1925 shares on the Stock Exchange totalled 25 per cent. more than in 1919, which was a record

year. Brokers' loans for account of correspondents made by reporting member banks in New York City increased rapidly after 1923, until at the end of 1925 a total of 1,648 million dollars was registered (as compared with 291 dollars in 1919). Call loan renewal rates began to rise from the beginning of the year and stood at 4.98 per cent. (average) in the last quarter. Total capital issues expanded by 1,000 million dollars, the increase taking place mainly in domestic capital issues. The volume of acceptances began to rise, but on the other hand the commercial paper volume started to decline.

In the following year, 1926, the favourable trade balance of the United States as shown by the year-end totals of the international balance sheet was only about one-half of that of 1925. War debts repayments and interest and dividends repayments on loans increased, however, and there was a large inflow of short-term capital. The boom in foreign investment continued, and new foreign security underwriting (net) exceeded 1,000 million dollars. As shown in the table the outward movement of private long-term capital was estimated at 605 million dollars. As compared with 1925 tourist expenditures and immigrant remittances were less in amount, but there was a net inflow of gold of 112 million dollars.

For the year the average annual total of Reserve Bank credit was slightly larger than in 1925. At the end of the year, however, the total of Reserve Bank credit outstanding was about 50 millions lower than the year before owing to the influence of gold imports. Member bank credit showed a slight increase in 1926 and was utilized mainly in loans:

other than security loans, in striking contrast to previous years, for from 1922 to 1925 the largest growth in member bank credit is due to security loans which represented to a considerable extent an increased volume of credit used in financing transactions in securities at the New York Stock Exchange (indicated by the rapid growth during that period of loans to brokers and dealers in securities in the New York market). The total of brokers' loans in the first quarter of 1926 was 3,015 million dollars, but throughout the year there was slightly less activity on the Stock Exchange. The decline in reporting member banks loans for own account was followed by a reduction in loans of out-of-town banks, but loans for the account of others showed little change. The call-loan renewal rates moved downwards in the middle of the year, but, beginning to rise after that date, stood at 4.82 per cent. (average) in the last quarter—a lower level than that of the same period in the previous year. Total capital issues showed an increase in which domestic and foreign capital issues shared. Bonds increased slightly in popularity as compared with 1925, but stock prices began a substantial rise in the second half of the year. The total volume of commercial paper continued to decline. It is interesting to observe that whereas previous to 1924 the volume of commercial paper exceeded bankers' acceptances, for 1925 and most of 1926 the average volume of commercial paper and acceptances was very closely balanced.

The favourable trade balance recovered in 1927, as Table VIII giving year-end totals of the international balance sheet shows. Receipts on account of war debts and interest and dividends on loans



were larger in amount. There was a net outflow of gold and a considerable inflow of short-term capital. On the debits side, the volume of new foreign security underwriting was again very large, and the outward movement of private long-term capital was estimated at 705 million dollars. Tourist expenditures were slightly larger, but immigrant remittances fell by a small amount.

The total of Reserve Bank credit was influenced in 1927 chiefly by the effects of international gold movements. There were large imports throughout the early part of the year, which were used by the member banks to reduce their indebtedness at the Reserve Banks. From May to the end of the year, however, gold exported and ear-marked for foreign account exceeded gold imports, with the result that there was an increased demand for Reserve Bank credit and at the end of the year 'total bills and securities' of the Reserve Banks were in larger volume than at any time in the previous six years. This increased demand was met by the Reserve Banks largely through the purchase of securities in the open market.

The volume of member bank credit increased—the growth taking place largely in investments and in loans on securities. 'All other loans' (which comprised loans for commercial, agricultural, and industrial purposes as well as real estate loans) actually decreased during the year, as is indicated by Table IX.

The year 1927 was a 'bull' year on the Stock Exchange in New York. Stocks transferred numbered 13.7 per cent. more than in 1925, which was a record year. Brokers' loans rose during every month of the year and in the third quarter had

passed the total recorded for the first quarter of 1926. Credit was easier, since in that year, as in 1924, external conditions forced themselves upon the attention of the Federal Reserve Authorities. It was considered that the weakness of European countries revealed by the state of the exchanges was likely to be aggravated by a firming policy on the part of the Federal Reserve Board. Accordingly the New York Federal Reserve discount rate was reduced in August from 4 per cent. to  $3\frac{1}{2}$  per cent. and the Reserve Banks made the supply of credit more plentiful as we have seen through open market operations—a move which would, it was hoped, assist not only Europe but would have beneficial results for the United States ultimately. Now loans and investments of all member banks had already risen considerably from June 1922 onwards, and some impression of the extent to which the increase in bank credit was used by the New York stock market can be gained when it is stated that the total increase in brokers' loans during 1927 was 1,140 million dollars and the total increase in the same year of total loans and discounts of all member banks was only 1,411 million dollars.

TABLE IX. LOANS AND INVESTMENTS OF REPORTING MEMBER BANKS 1926-7. (MONTHLY AVERAGES OF WEEKLY FIGURES).

*In millions of dollars.*

	<i>December 1926</i>	<i>December 1927</i>	<i>Increase or decrease (-) per cent.</i>
Loans and investments	20,055	21,728	8.4
Loans on securities .	5,694	6,594	15.8
All other loans .	8,776	8,739	-0.4
Investments . .	5,585	6,396	14.5

An extension of credit was possible without the assistance of Federal Reserve policy, through gold imports. From June 1922 to June 1927 the monetary gold stock of the United States was increased by 803 million dollars. 'An additional hundred dollars of credit can be extended by any member bank that receives a time deposit in gold of three dollars, or a demand deposit of 13 dollars, 10 dollars or 7 dollars according to whether the bank is in a central reserve, reserve or other city. It is not difficult to appreciate that an increase in gold holdings of 803 million dollars might easily, by itself, support an increased extension of credit of 13,767 million dollars without any need to have recourse to Federal Reserve credit, even after allowing for the fact that some of the imported gold may have been impounded in the Treasury. Moreover there had been a quite disproportionate increase in the time deposits of member banks as compared with their demand deposits.'<sup>2</sup>

<i>All member banks</i>	<i>December 31st, 1919</i>	<i>December 31st, 1927</i>	<i>Percent- age increase</i>
	<i>(million dollars)</i>	<i>(million dollars)</i>	
Net demand deposits	16,559	20,083	21
Time deposits	5,305	12,765	120

Such an increase of time deposits was bound to lead to a large increase of credit, as we have shown earlier in the analysis.

The plentiful supply of credit had again the effect of lowering at first its price. Call-loan renewal rates moved downwards and stood at 3.96 per cent. (average) in the last quarter of 1927. The

total volume of capital issues increased and the growth was particularly large in the volume of domestic capital issues, which showed an increase of 2 milliard dollars from 1926 to 1927. Stock prices rose but bonds remained popular throughout the year. The total volume of acceptances began to forge ahead of that of commercial paper from 1927 onwards.

By 1928, the abundance of investment funds obtainable from various quarters was making its effect felt in different sections of the money market and already some forces were getting out of hand. The 'bullish' tendency is expressed both in the balance of international accounts and in the rising stock market in New York.

An examination of the balance of international payments figures (year-end totals) shows that in 1928 the favourable balance of trade was very large. Exports of goods exceeded imports by more than 1,000 million dollars. There was a fairly large outflow of gold, and repayments of war debts and interest and dividend items increased. On the debits side there was again a boom in new foreign security underwriting (net), which exceeded 1,000 million dollars. On balance there was a fairly large outflow of short-term capital, and an increase took place in tourist expenditures and immigrant remittances.

Early in 1928 the Reserve Banks tried to restrain the boom by an advance in rediscount rates in February from  $3\frac{1}{2}$  per cent. to 4 per cent., from 4 per cent. to  $4\frac{1}{2}$  per cent. in May to 5 per cent. in July. They also reversed their policy with regard to the purchase of securities in order to bring about firmer money conditions. The gold outflow

continued to the middle of the year, and the member banks were forced to borrow from the Reserve Banks.

Credit extended by member banks, however, expanded considerably in the year, reflecting both increasing business activity and a growth in the demand for credit to finance the trade in securities. Loans on securities of reporting member banks increased by 7·8 per cent. The restrictive policy of the Reserve Banks was not over-successful therefore, although it is true that that percentage would have been higher but for the increased member bank indebtedness. The upward movement on the Stock Exchange continued, and the total of brokers' loans outstanding at the end of 1928 was 45 per cent. greater than in 1927 and almost double the 1927 year-end figure, and the number of shares which changed hands showed an increase of 60 per cent. over the previous year. In the increased total of brokers' loans, the rapid growth of loans by corporations, individuals, non-member banks, and foreign lenders, made through the banks was conspicuous. At the end of 1928 more than half of the total borrowings of brokers on the New York Stock Exchange consisted of loans from non-banking sources. The call-loan renewal rate moved steadily upwards from 4·40 per cent. (average) in the first quarter of the year to 7·62 per cent. (average) in the last quarter of 1928. Thus although slight increases in discount rates had been made and the member banks had reduced their loans to the Stock Exchange, speculative forces could not be checked and had risen to dangerous heights.

For the year, there was a slight increase in the

total of capital issues. The volume of acceptances continued to rise and that of commercial paper proceeded downwards.

The year-end data given in the balance of international payments for 1929 do not indicate fully the spectacular course of events in that year. It will be noted that there was still a large favourable balance of trade but one rather smaller than that of the previous year. War debts receipts and interest and dividend on loan remained about the same in amount. Balancing these three items on the credit side, on the debits side there were net imports of gold, a small outflow of short-term credit (net), a fairly small outward movement of private long-term capital (the smallest total from 1919 onwards), larger tourist expenditures, and smaller immigrant remittances. The most interesting item on the debits side is that showing the movement of private long-term capital. In a later chapter the history of underwriting of foreign securities will be given in detail, but it must be noted here that in 1929 there was a spectacular collapse when the volume was less than half that for 1927 and 1928 and only slightly greater than the annual average for 1919 to 1923. The reasons are many. The rising stock market (which will be presently discussed) made American investors greedy for speculative securities. Only securities of the strongest and best known of foreign corporations stood a chance in the maelstrom, and the investing public's knowledge of foreign investing was small at the best of times. Foreign corporations were faced with the necessity of offering higher interest yields than in the previous years, and this fact was discouraging to many issues. Then there

were unfavourable political and economic conditions in many countries. Particularly had Latin America been hit by a declining export trade. So that the stock market boom and collapse affected not only domestic but foreign issues as well.

For the year 1929 Reserve Bank credit declined. An important factor in the decrease was the inflow of gold from abroad, but the policy of the Federal Reserve Board was now expressly designed to restrict security speculation. In the first six months of 1928 the Reserve Banks reduced their holdings of U.S. government securities by 230 million dollars and their holdings were still further reduced by 70 million dollars in the following fifteen months. The Board opposed rediscounting of loans on securities for the member banks. The New York Federal Reserve Bank rediscount rate was raised from 5 per cent. on July 13th, 1928, to 6 per cent. on August 9th, 1929. The member banks were thereby caused to reduce their own holdings of U.S. government and other securities by over one billion dollars. But the mischief had been done and the action of the Board was too late. In 1929 the growth of loans on securities reached its peak, and two-thirds of the increase of member bank loans from September 1928 to the same month in the following year consisted of loans on securities. There was a rapid extension of brokers' loans in the first eight months of 1929 and they totalled 8,549 million dollars in September (which was 55 per cent. more than in September 1928). Again, the rapid growth of loans by corporations and individuals made through banks was a notable feature, and it was estimated that in that month two-thirds of borrowings of brokers on the New York Stock

Exchange consisted of loans from non-banking sources. The call-loan renewal rate moved from 7.74 per cent. (average) in the first part of the year to 8.65 per cent. (average) in the third quarter of the year. There was a rapid turnover of all shares negotiated on the Stock Exchange and new shares were issued in large quantities. From September 11th began the biggest rise, and the inflow of gold into the United States increased to such a degree that the Bank of England found itself obliged to raise its rate from 5½ per cent. to 6½ per cent., but since 10 per cent. to 11 per cent. was paid without hesitation in New York, this gesture would not have been successful had not other forces been moving in the direction of liquidation. By October there was a general feeling that the boom was too good to last. Non-banking lenders had begun to withdraw funds and a general collapse of the security market followed. At the end of 1929 brokers' loans showed a 38 per cent. decline from the 1928 year-end figure. The bulk of this decline was represented by the withdrawal of funds from non-banking sources. The call-loan renewal rate moved to 5.58 per cent. (average) in the last quarter.

Table X illustrates the changes in the character of brokers' loans made by reporting member banks in New York City from 1925 to 1929 and shows the rise and collapse of totals in the year 1929.

The position of reporting member banks in New York City from October to November 1929 can be gauged from the figures in Table XI.

There was a very large increase in capital issues in 1929 (despite the slump at the end of the year), which took place of course in domestic capital



TABLE X BROKERS' LOANS MADE BY REPORTING MEMBER BANKS IN NEW YORK CITY 1925-9

*In millions of dollars*

<i>Period</i>	<i>Total</i>	<i>For own account</i>	<i>For account of out-of-town banks</i>	<i>For account of others</i>
1925 March	2,118	1,005		1,113*
June	2,239	1,039		1,200*
September	2,369	987		1,382*
December	2,800	1,152		1,648*
1926 March	2,800	1,051	1,173	576
June	2,517	973	944	600
September	2,784	974	1,128	682
December	2,698	887	1,045	766
1927 March	2,816	901	1,091	824
June	3,045	1,007	1,180	858
September	3,262	1,061	1,285	916
December	3,621	1,282	1,354	985
1928 March	3,761	1,064	1,450	1,247
June	4,360	1,048	1,568	1,744
September	4,418	887	1,607	1,924
December	5,193	1,114	1,760	2,319
1929 March	5,679	1,071	1,729	2,879
June	5,383	895	1,548	2,940
September	6,540	1,048	1,850	3,642
December	3,391	888	713	1,790

\* For 1925, total given for account of correspondents.

issues, as foreign capital issues declined sharply. Domestic capital issues were 2.5 milliard dollars (approximately) in excess of the 1927 and 1928 totals and 4.5 milliards greater than in 1926. The increase in the total of new capital flotations by corporations was primarily due to the activities of investment trusts, security trading, and holding companies. Throughout 1928 and 1929 common stocks held the public's attention. Stock prices continued to rise until September 1929, when the average price of twenty-five leading industrial stocks was 58 per cent. higher than in the same

month in 1928 and almost three times as high as the average for September 1925. Bond prices rose gradually until 1929, when they declined partly as a result of the reduction of U.S. government securities by the Federal Reserve Banks and the member banks.

TABLE XI. CHANGES IN THE POSITION OF REPORTING MEMBER BANKS IN NEW YORK CITY, OCTOBER TO NOVEMBER 1929.

*In millions of dollars*

	<i>Oct. 23rd to Oct 30th</i>	<i>Oct. 30th to Nov. 27th</i>	<i>Oct. 23rd to Nov. 27th</i>
Loans and investments	+1,391	-823	+568
Loans on securities	+1,200	-1,128	+72
To brokers . . .	+92	-1,138	-246
To others . . .	+208	+110	+318
All other loans . . .	+92	+106	+198
Investments . . .	+98	+199	+297
Reserves with Federal Reserve Banks . . .	+243	-201	+42
Borrowings from Federal Reserve Banks . . .	+129	-137	-8

The total volume of acceptances outstanding increased from 774 million dollars in 1925 to 1,732 million dollars in 1929. In 1925, of the total, 374 millions was held by Federal Reserve Banks for own account. That position is illustrative of the support given to the acceptance market for some years by the Federal Reserve System. The total of bills purchased by the accepting banks was quite small. Part of the blame can be attributed to the willingness of the Reserve Banks to come to the assistance of the acceptance market. Unfortunately that willingness set Reserve Bank credit obtained by sales of acceptances to the Reserve Banks

free for speculative enterprise in other places which the Federal Reserve Board was attempting to restrict by warnings and by direct curtailment of credit facilities. Until 1929, the Reserve Banks held 50 to 40 per cent. of the total volume of acceptances outstanding. But after the beginning of 1929, the outside market took an interest. Foreign banks with large surplus balances in the United States also operated in the acceptance market. They found in acceptances a useful type of security, and substantial purchases for their accounts were made by the Reserve Banks for several years. From 1927 the total was well over 200 million dollars and was 400 million dollars during the second half of 1929.

We have stated that a decline took place in the volume of commercial paper after 1924. From 1927 acceptance totals advanced beyond commercial paper totals until at the end of 1929 acceptances totalled over 1,700 million dollars and commercial paper only 334 million dollars. The disappearance of commercial paper as an important means of business financing at the same time that bankers' acceptances were coming into greater popularity was simply an indication of general changes in American banking and business methods. It did not reflect a sudden transfer of a great volume from one form of borrowing to the other. A large part of the increase in bankers' acceptance volume from 1927 was due to business in and between foreign countries. This was not commercial paper business, and the bankers' acceptance will continue to serve as a means of financing the shipment and storage of the goods of manufacturers, who may have used, wholly or in part, the services

of the commercial paper market in the manufacturing period.

TABLE XII. INDEXES OF AMERICAN FINANCIAL CONDITIONS, 1925-9 (YEARLY AVERAGES)

	1925	1926	1927	1928	1929
<i>Security Prices*</i>					
1 Stock Prices (421 stocks)	89.7	100.0	118.3	149.9	190.3
2 Bond Prices (40 High-Grade Bonds)	77.04	80.28	83.19	84.06	79.21
<i>Interest Rates per cent</i>					
3. Bond Yields (60 High-Grade Bonds)	4.72	4.60	4.47	4.49	4.70
4. Call Loan Renewal Rate†	4.98	4.82	3.96	7.62	5.58
5. 60- to 90-Day Bankers Acceptance Rate†	3.50	3.83	3.25	4.50	4.34

\* Standard Statistics Index Number of Security Prices

† Last quarter of the year.

The above Table XII gives indexes of American financial conditions from 1925 to 1929. Reference should be made also to tables in the Appendix, particularly to Tables XXXIII and XXXV, showing brokers' loans reported by the New York Stock Exchange and short-term international capital movement 1927 to 1929 respectively. We have seen from year-end totals shown in the balance of payments of the United States for 1925 to 1929 that the course of events was slightly different from that in the period 1919 to 1924. There were of course the usual favourable

balances of trade supported to some extent by outward movements of private long- and short-term capital. What is of particular interest is the activity of foreigners in the American money market. We have stated that there was an inflow of long-term funds, and we must stress also the inflow of short-term funds. From Table XXXV in the Appendix, it will be noted that there was an increase in foreign funds invested in American acceptances of 485 million dollars from 1927 to 1929, and that the figure of foreign deposits with American banks was much greater than the total of American deposits abroad in the same period. We have seen the influence of funds from non-banking lenders on the New York Stock Exchange up to 1929, how they helped to promote the boom and were primarily responsible for the collapse towards the end of the year.

Undoubtedly these were exceptional circumstances in which the Federal Reserve Board authorities had to function. There was an abundance of funds for speculative purposes. As we pointed out in the last chapter, the money market was set for a rise from 1924 and that rise was actually inspired in part by the cheapening of credit by the Federal Reserve Banks. Again, in the second period, European needs called for action on the part of the Federal Reserve Board, and in 1927 steps were taken to make credit easier. The result was disastrous in its effects upon the United States, and speculation grew apace. A considerable inflow of funds from abroad assisted the upward movement, and the speculative forces exhausted themselves almost without resistance from the Federal Reserve authorities. It is not our purpose to

apportion blame in this chapter but merely to note the changes in movements and policies. But we must in passing point to the different operators in the money market. The member banks of course played a considerable part and foreign lenders too can partly be held responsible for the events of 1929. But behind them were the Federal Reserve authorities assisting either by increasing the supply of credit through open market operations, through purchases of acceptances, through reductions in the discount rate or by failing to restrict the supply of credit at the proper time.<sup>3</sup>

CHAPTER VI  
THE AMERICAN MONEY MARKET  
1930 to 1932

THE year 1930 ushered in declining activity. The United States suffered, along with the other countries, a severe depression which reflected itself in all the items of the international balance sheet, as is shown by the year-end totals in Table XIII.

The total volume of foreign trade of the United States fell from 9,641 million dollars in 1929 to 6,904 million dollars in 1930. In 1931 it moved down to 4,514 million dollars, and in 1932 it was only 2,935 million dollars. The surplus of exports over imports declined progressively from 841 million dollars to 782 millions in 1930 to 289 million dollars in 1932. The annual average surplus of goods exports was estimated at 468 million dollars from 1930 to 1932, as compared with a total of 724 million dollars in the period 1925-9.

For the first time since the War (with the exception of 1923, when the estimated net import was small) the United States became net importers of long-term investment funds in 1931 and 1932. Flotation of new issues declined to negligible figures. Foreign bonds were more and more suspect as the world economic crisis deepened. Sales of American stocks and bonds to foreigners and the repatriation of securities and bond redemptions by foreigners exceeded in volume the repurchases of American stocks and bonds from foreigners and other foreign long-term investments by Americans.

Owing to the Hoover moratorium in 1931 and to defaults in 1932, war debts receipts were less in amount and averaged 151 million dollars annually.

Earnings on private long- and short-term investments abroad decreased from 616 million dollars in 1930 to 393 million dollars in 1932.

The totals on the debit side of the balance sheet showed a similar decline. Tourist expenditures were less in amount and in 1932 were only about three-fifths of what they were in 1930. Immigrant remittances were smaller, falling to 163 million dollars in 1932.

In the three-year period the United States was a net importer of gold on an average of about 38 million dollars per annum.

The outflow of short-term funds which was recorded on a small scale in 1928 and 1929 assumed large proportions from 1930 to 1932 and was estimated at 1,565 million dollars. The withdrawals in 1931 were specially heavy and were estimated at 709 million dollars.

Table XIII gives a summary of the above year-end totals.

In 1930 of course the depression had not had time to make its full effect felt. The balance of international payments (year-end total) indicates that the favourable balance of trade had begun to shrink, but war debts receipts and interest and dividends on loans abroad were slightly in advance of the 1929 totals. The other side of the balance sheet shows an increase in the outward movement (net) of private long-term capital. The total of new foreign issues exceeded that of the previous year by more than 380 million dollars, but investors



TABLE XIII BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES 1930-2

*In millions of dollars.*

	1930	1931	1932
<i>Debits</i>			
Movement of private long-term capital	278	..	..
Short-term capital account (net) . . .	485	709	371
Tourist expenditures . . . . .	602	456	375
Immigrant remittances . . . . .	215	202	163
Gold and paper currency . . . . .	258	..	91
Miscellaneous items* . . . . .	193	172	115
Unestimated items, errors and omissions . . . . .	..	..	..
	2031	1539	1115
<i>Credits</i>			
Movement of private long-term capital	..	218	217
Short-term capital account (net) . . .	..	..	..
Commodity trade balance . . . . .	782	334	289
Gold and paper currency . . . . .	..	166	..
War debts receipts . . . . .	241	113	99
Interest and dividends . . . . .	616	536	393
Miscellaneous items* . . . . .	..	7	3
Unestimated items, errors and omissions . . . . .	392†	165	114
	2031	1539	1115

\* Includes government transactions, shipping and freight services and miscellaneous current items

† Large total probably due to incorrect or incomplete returns on capital movements.

were showing a good deal of caution and had smaller funds in hand for investment. Foreign governments, moreover, hesitated in taking up new debt burdens because of decreased revenues, and the service charges on the outstanding debt took a proportionately large part of the governmental income. Furthermore, the decline in commodity prices proved an additional burden and

Latin American countries were particularly affected. Generally, political and economic conditions were very unfavourable for the negotiation of loans during the year. As compared with 1929 tourist expenditures and immigrant remittances were smaller, but there was a larger import of gold and a large outflow of short-term funds.

Within the United States throughout 1930 there was a reduced demand for bank credit from trade and industry as industrial production began to decline, and in these circumstances the Federal Reserve System pursued a policy of easy money conditions. In addition to purchases of U.S. securities by the Reserve Banks, discount rates were lowered in order to stimulate business. The New York Federal Reserve discount rate stood at 2 per cent. in December. The average annual total of Reserve Bank credit declined, however—reflecting an increase in the country's monetary stock of gold, an inflow of currency from circulation (owing to the decline in the volume of retail trade and retail prices), and the considerably larger holdings of U.S. government securities by the Reserve Banks. Member bank loans declined in 1930 owing to diminished demands from trade and industry. Loans on securities increased in volume for a short time as the member banks took over street loans withdrawn by non-banking lenders, and afterwards declined. From October 1929 to the end of 1930 the totals decreased by 1,050 million dollars. From 1930 onwards there was a steady decline of brokers' loans. In September 1929 they had totalled 8,549 million dollars. By the end of 1930 they had fallen to 1,894 millions, and the downward movement continued from that date. The call-loan renewal

rate moved from 5.58 per cent. (average) in the last quarter of 1929 to 2.08 per cent. (average) in the last quarter of 1930. The volume of capital issues steadily declined after 1929 owing to the depression in trade and industry and lack of confidence. Bond issues were once more popular, and bond prices rose in 1930.

The acceptance market suffered the same depressed conditions as all the other markets, but there was a slight increase in the volume of commercial paper outstanding in 1930 as compared with 1929.

In 1931 the depression became more pronounced, and the table showing the balance of international payments illustrates this clearly. The year-end totals show marked declines in all the items. Particularly, the favourable balance-of-trade item registered a large decrease to over one-half the total for 1930. The business depression deepened and commodity prices declined to new levels. All over the world countries suffered decreases in public revenues and increases in public expenditures. Unbalanced budgets resulted, and in some cases governments defaulted on foreign debts. This was no time to obtain capital or goods from the United States. New foreign issues were practically impossible there and the prices of those already in the market were depressed. The total of foreign securities publicly offered in the United States was about 285 million dollars, which was over 800 million dollars below that of 1930 and was the lowest yearly total since 1918. The net import of private long-term investment funds was estimated at 218 million dollars in 1931 as compared with a net export in 1930 of 278 million dollars. Receipts

on account of war debts registered a decline of one-half the total of the previous year, and those on account of interest and dividends on investments abroad were also smaller. There was an export of gold for the year. The debit side of the balance sheet showed a very heavy outflow of short-term funds and smaller totals for tourist expenditures and immigrant remittances.

The decrease in the stock of monetary gold accounts partly for the growth in Reserve Bank credit in 1931. Other factors responsible were an increase of money in circulation, an increase of foreign bank deposits, and a reduction in member bank reserve balances. Member bank credit declined throughout the year. Loans on securities declined considerably, and in the last month of 1931 brokers' loans totalled less than 7 per cent. of the record volume outstanding in September 1929. Loans made for the account of non-banking interests—corporations and individuals—were almost entirely liquidated. In November 1931 the New York Clearing Association adopted a regulation prohibiting member banks from placing brokers' loans for the account of non-banking interests, and to this regulation is due to some extent the restricted activity of these interests. The call-loan renewal rate stood at 2.43 per cent. (average) in the last quarter of 1931.

The volume of capital issues continued to decline in 1931. Stocks remained unpopular and the public continued to be sceptical of speculative lines. The acceptance market was still depressed, and the total volume of acceptances outstanding was nearly one half of that for 1929. The commercial paper market also showed less activity.

In the last year of the period, 1932, the United States improved her position somewhat. There was, however, a smaller favourable balance of trade. War debt receipts and interest and dividend payments on foreign loans declined still further from the totals for the previous year. The country was again a net importer of long-term investment funds estimated at 217 million dollars. The unfavourable conditions of preceding years were aggravated by increasing defaults on outstanding issues, rigid exchange controls, and deflationary movements which reduced international long-term lending almost to vanishing point. New foreign issues publicly offered in the United States aggregated 88 million dollars, of which 59 millions represented refunding issues—an astonishingly small total when one remembers that from 1924 to 1928 the annual average approximated 1,360 million dollars. Other claims against the United States in tourist expenditures and immigrant remittances were smaller; there was an inflow of gold, and although the outflow of short-term capital was large, it was considerably smaller than that of 1931.

In the first seven months of 1932 gold was exported. The Federal Reserve Banks purchased U.S. government securities and enabled the member banks to meet the demand for gold from abroad and also to reduce their indebtedness at the Reserve Banks. Federal Reserve discount rates in New York were reduced from  $3\frac{1}{2}$  to 3 per cent. early in the year. But to the end of the year the gold movements were reversed and member banks obtained funds from the gold inflow. The holdings of U.S. government securities by the Reserve Banks remained at a constant level. For the year

as a whole purchases of U.S. government securities by the Reserve Banks were large in amount and the total of bills discounted was in advance of the 1931 total. The average annual total of Reserve Bank credit for 1932 amounted to 2,076 million dollars (as against 1,274 million dollars in 1931). Member bank credit, which had declined rapidly from the autumn of 1930 to the middle of 1932, continued to decline during the latter part of the year, but at a slower rate. The largest decrease took place in loans on securities, although 'all other loans' also declined, but member bank investments increased in volume. At the close of 1932 brokers' loans made by reporting member banks in New York City amounted to 393 million dollars as compared with 1,305 million dollars in December 1919. Table XIV illustrates the decline from March 1930 to December 1932.

In the open market conditions were easy, and in the latter part of 1932 money rates declined to exceptionally low levels. The call-loan renewal rate stood at 1 per cent. in the last quarter of the year.

The volume of capital issues in 1932 was only one-quarter (approximately) of that in 1931. It is of interest to note that the total of domestic capital issues rose from 3,726 million dollars in 1919 to a grand total of 10,813 millions in 1929, and declined to 1,080 millions in 1932. Investment trusts, &c., which had played such a prominent part were almost negligible from 1930 onwards. There was considerable liquidation of stocks owing to unfavourable foreign news, uncertain financial and economic conditions, bank failures, &c., within the United States, and stock prices declined. Bond prices moved downwards from 1931.

TABLE XIV BROKERS' LOANS MADE BY REPORTING MEMBER BANKS IN NEW YORK CITY, 1930-2

*In millions of dollars*

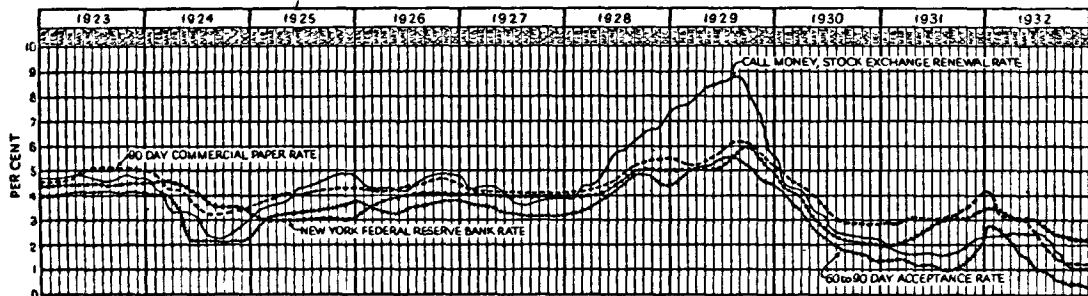
	Total	For own account	For account of out of town banks	For account of others
1930 March	3,740	1,210	1,100	1,430
June	3,826	1,831	917	1,078
September	3,174	1,676	750	748
December	2,012	1,266	339	407
1931 March	1,878	1,355	264	259
June	1,464	1,110	181	173
September	1,268	943	174	151
December	655	554	88	13*
1932 March	531	432	94	5
June	377	342	29	6
September	409	385	19	5
December	393	377	12	4

\* Note that after the action taken by the New York Clearing House Association brokers' loans for 'account of others' embrace only

- (a) those made by weekly reporting banks that are not members of the clearing house and do not clear through others, and
- (b) loans made by clearing house banks for account of non member banks located in New York City and agencies of foreign banks

Cf. *Federal Reserve Bulletin*, December 1931, p 657.

From 1929 onwards, as we have seen, there was a large reduction in the total volume of acceptances outstanding. In 1932 the total was estimated at 710 million dollars as compared with 1,732 millions in 1929. But it will be seen from Table XV that after 1929 the outside market supported the acceptance market to a greater extent than hitherto. By the end of 1930 the Reserve Banks held only 327 millions of a total 1,556 millions. At the end of 1932 acceptances held by accepting banks amounted to over two-thirds of the total and the Reserve Banks'



**CHART II. MONEY RATES IN NEW YORK CITY.**

*Note:* Bankers' Acceptance Rates generally below other Rates



own share of the total outstanding volume was quite insignificant. The total held for foreign correspondents by the Reserve Banks amounted only to 40 million dollars.

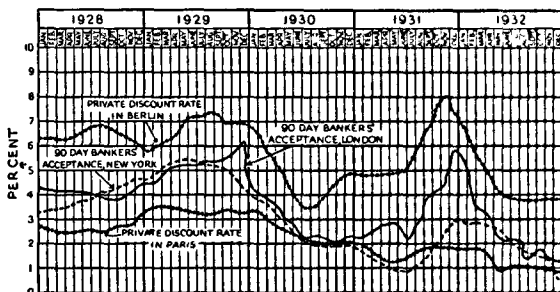


CHART III SHORT TERM INTEREST RATES IN NEW YORK, LONDON, PARIS AND BERLIN

TABLE XV. ACCEPTANCES ISSUED, HELD IN PORTFOLIO OR PURCHASED ALL ACCEPTING BANKS, FEDERAL RESERVE BANKS AND OTHERS.

*In millions of dollars*

Year ending	Total outstanding volume	Held by Federal Reserve Banks for own account	Held by Federal Reserve Banks for foreign correspondents	Held by accepting banks, own and others	Held by all others and dealers
1925	774	374	70	67	262
1926	755	380	59	60	255
1927	1,081	390	228	105	356
1928	1,284	487	324	76	396
1929	1,732	390	547	191	603
1930	1,556	327	439	371	417
1931	974	305	250	263	156
1932	710	4	40	604	62

The commercial paper market showed a similar decline, but for different reasons. We have already

indicated the use of the bankers' acceptance as taking the place of commercial paper. An important reason is to be found in many reforms in business management in the United States in recent years. Briefly, stock issues and short-term securities, new methods of merchandising, producer to consumer sales, the passing of the wholesaler and jobber, chain stores and instalment selling, have all had a part in putting business on a more self-supporting basis, making it less dependent on the commercial paper market. Furthermore, like the acceptance market, the commercial paper market suffered from the pull exerted by the Stock Exchange for money market funds.

TABLE XVI. VOLUME OF COMMERCIAL PAPER OUTSTANDING 1919-32.

*In millions of dollars.*

<i>Year ending</i>	<i>Total volume of commercial paper outstanding</i>	<i>Year ending</i>	<i>Total volume of commercial paper outstanding</i>
1919	1,186	1926	525
1920	947	1927	555
1921	663	1928	383
1922	721	1929	334
1923	763	1930	357
1924	797	1931	118
1925	621	1932	81

Thus the history of America after 1929 is in curious contrast to that of the previous five years. Severe depression prevailed on all sides. Pessimism in the United States was nation-wide. According to one cynical observer, the only institutions experiencing a boom were the churches, which were well filled, and that fact in itself was sufficient evidence of the plight in which the American economy found itself.

We have noted the evidence showing the collapse in America's international and national financial relationships. So far as the latter are concerned, it is of interest to observe that whereas before 1930 the member banks were to a large extent independent of the Reserve Banks, after that year they were compelled to seek support to tide them over a very difficult period. In February 1932 the Glass-Steagall Act was passed which authorized the Federal Reserve Board until March 1933 (the period was extended later to March 1934) to permit the use of U.S. government obligations as collateral security for Federal Reserve notes. Having received this authority, the Federal Reserve Banks were in a position through the purchase of U.S. government securities to relieve the member banks. The Act also permitted advances to member banks even although no assets were available which were previously eligible.

Certain other relief measures were also instituted in the course of 1932. The liquidation of member bank credit was partly offset by the creation of the Reconstruction Finance Corporation in January, for the purpose of financing industry, agriculture, and commerce. The corporation had a capital of 500 million dollars subscribed by the U.S. treasury, and was also authorized to obtain other funds up to 1,500 million dollars by issue of its own obligations. It was empowered to make loans to banks, insurance companies, certain classes of agricultural credit institutions, and other financial institutions, railroads, &c. Its borrowing and lending powers were added to by the Emergency, Relief, and Construction Act of July 1932.

The sharp decline in the volume of exports had

serious effects upon business activity within the United States. Right to the middle of 1932 depression persisted. Unemployment increased and purchasing power was further curtailed by salary reductions and wage-cuts. Falling prices and reduced markets added to the burden of the farmer and industrialist. The national income shrunk and income-tax receipts declined. A general lack of confidence in business and in banking institutions added to the weight of the depression.<sup>1</sup>

By the end of 1932 it was clear that extraordinary measures were necessary to improve this desperate state of affairs.

The following table indicates the decline in the national income from 1929 to 1932:

TABLE XVII. NATIONAL INCOME OF THE UNITED STATES, PAID OUT AND PRODUCED 1929-32

*In millions of dollars.*

	1929	1930	1931	1932
Income paid out .	81,136	75,410	63,247	48,894
Business losses or savings . .	1,896	-5,065	-8,604	-9,529
Income produced .	83,032	70,345	54,643	39,365

Note that the difference between 'income produced' and income paid out is described as business losses or savings Cf. Monthly Bulletin of National City Bank of New York, August 1934, p. 125. Quotes Bulletin of National Bureau of Economic Research Inc.

## CHAPTER VII

### THE AMERICAN MONEY MARKET IN 1933

The following table shows the balance of international payments (year-end totals) for the United States in 1933 (with that of 1932 for purposes of comparison).

**TABLE XVIII BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES IN 1933**

*In millions of dollars*

	1933	(1932)
<i>Debits</i>		
Movement of private long-term capital	..	.
Short-term capital account (net) . . .	385	371
Tourist expenditures . . . . .	221	375
Immigrant remittances . . . . .	132	163
Gold and paper currency . . . . .	..	91
Miscellaneous items* . . . . .	71	115
Unestimated items, errors and omissions	.	..
	809	1,115
<i>Credits</i>		
Movement of private long-term capital	49	217
Short-term capital account (net) . . .	..	.
Commodity trade balance . . . . .	225	289
Gold and paper currency . . . . .	83	..
War debts receipts . . . . .	20	99
Interest and dividends . . . . .	389	393
Miscellaneous items* . . . . .	..	3
Unestimated items, errors and omissions	43	114
	809	1,115

\* Includes government transactions, shipping and freight services, and miscellaneous current items.

It will be noted that in 1933 the United States was again a creditor on account of private long-term capital, but on a smaller scale than in 1932.

The totals for the favourable balance of trade, war debts receipts, and interest and dividends on American loans abroad were also smaller, but the decline in these totals was more than offset on the debits side of the account by the fall in the claims against the United States represented by tourist expenditures and immigrant remittances. A smaller number of tourists left the United States, and the smaller total of immigrant remittances was due probably to the decline in the income of the working-class population, to a decline in immigration and an increase in the number of workers leaving the United States.

In the first quarter of the year there was a very heavy outflow of short-term funds. Foreign-owned bank deposits were rapidly withdrawn and converted into gold which was either exported or placed under ear-mark for foreign account. Between January 18th and March 3rd, 1933, the country's monetary gold stocks declined by 324 million dollars. For the year as a whole there was a net outflow of gold amounting to 173 million dollars, and the outflow of short-term funds was estimated at 385 million dollars.

At the beginning of 1933 the United States was faced with a severe depression. A large percentage of the population was unemployed, the national income was declining, the Federal Budget was unbalanced, the financial and credit system was in grave danger of collapse, the country was carrying a heavy burden of debt, and foreign trade was shrinking. To some extent the year-end totals of the balance of international payments reflect this situation, particularly in the smaller favourable balance of trade, the declining tourist expenditures

and immigrant remittances, and in the outflow of short-term funds.

By March the banking situation had become very acute. Withdrawals of deposits in the form of currency from banks, which had commenced earlier in the year, assumed large proportions. Considerable amounts of gold were included in the withdrawals for domestic hoarding and for export abroad. Finally, some banks were compelled to close down, and in order to protect the banking institutions of the country, on March 6th, bank holidays were declared for the country as a whole. The export and ear-marking of gold was prohibited except for transactions licensed by the Secretary of the Treasury. On March 9th Congress was convened to deal with the banking crisis, and a number of drastic measures were taken.

First the Emergency Banking Act was passed which confirmed the action already taken by the President and empowered him to investigate, regulate, or prohibit transactions in gold or foreign exchange. Further, it provided the Treasury with the power of sanctioning the reopening of banks and authorized the Comptroller of the Currency to appoint conservators for National Banks, the condition of whose assets did not permit them to open. Member banks were given wider access to the Federal Reserve Banks for the emergency period, and the Federal Reserve Banks were authorized to issue Federal Reserve Bank notes secured by U.S. government bonds or commercial paper (in the latter case up to 90 per cent. of the estimated value). The Reconstruction Finance Corporation was given the power to purchase preferred shares in order to facilitate the reorganization of weak banks.

Later, the powers of the Federal Reserve Banks and the Reconstruction Finance Corporation were extended for the assistance of non-member banks.

The banks gradually opened in the second half of March, and from that time to July general business in the United States recovered.

The attempt to revive prosperity by the expansion of credit and the increasing of purchasing power was carried further by other methods. Briefly, the farming population benefited from the creation of the Agricultural Adjustment Administration and the Farm Credit Administration. The Civil Works Administration created work for 4 million unemployed, and a movement was set on foot to establish minimum wages and maximum hours throughout industry.

The import and export trade in goods was stimulated by the depreciation of the dollar, particularly from May to August, and the changes in the gold value of the dollar were also reflected in the fluctuations of security prices. Stock prices were very low in the first quarter of the year, but rose rapidly to the middle of the year and declined from that date. Bond prices similarly rose and declined. For the year as a whole, however, common stocks rose approximately 50 per cent. In the autumn steps were taken to establish a government market for gold as a means towards raising the price level. The Reconstruction Finance Corporation began purchases of newly mined domestic gold at 31.36 dollars per oz., and the quotations were later raised until they reached 34.01 dollars per oz. by December.

Congress also tried to restore confidence in the securities market by approving on May 27th an



Act which provides for 'full and fair disclosure of the character of securities sold in interstate and foreign commerce' The Act requires registration with the Federal Trade Commission, by the issuer, of a statement regarding the financial position of the issuer, the purpose of the issue, &c., and places on the issuer and underwriters legal responsibility for the statements made to investors in the distribution of security issues.

The vigour displayed by the authorities in the United States certainly had salutary effects upon business and banking, for in spite of the recession towards the end of the year, definite recovery in some directions was registered, and conditions at the beginning of 1934 were certainly better than those at the beginning of 1933. But statistics for 1933 as a whole indicate that the work of restoring prosperity was only in its earliest stages. Total capital issues declined to the very small total of 710 million dollars. Money rates in the second half of the year fell to record low levels. Call-loan renewal rates stood at less than 1 per cent. The low rates of interest reflected the large amounts of capital seeking temporary and profitable investment in safe and liquid forms. Whereas the total of Federal Reserve Bank credit outstanding increased during the year from 2,145 million dollars to 2,688 million dollars (represented mainly by an increase in U.S. government security holdings), member bank credit showed a decline—the decline taking place mainly in 'all other loans' but loans on securities also showed a decrease. Brokers' loans made by reporting member banks in New York City, however, registered an increase as compared with the previous year.

TABLE XIX. BROKERS' LOANS MADE BY REPORTING MEMBER BANKS IN NEW YORK CITY 1932-3

*In millions of dollars*

	Total	For own account	For account of out-of-town banks	For account of others
1932 March	531	432	94	5
June	377	342	29	6
September	409	385	19	5
December	393	377	12	4
1933 March	380	365	11	4
June	755	712	36	7
September	877	747	122	8
December	759	631	122	6

Note that brokers' loans reported by the New York Stock Exchange also showed an increase. See Table XXXIII in Appendix.

TABLE XX. COMMERCIAL PAPER OUTSTANDING AND ACCEPTANCES ISSUED, HELD IN PORTFOLIO OR PURCHASED, 1933.

*In millions of dollars*

	Commercial paper Total volume out- standing	Total volume of acceptances outstanding				
		Total outstanding volume	Held by Federal Reserve Banks for own account	Held by Federal Reserve Banks for account of foreign correspondents*	Held by accepting banks own and others	Held by all others and dealers
In						
March	72	911	36	335	377	163
June	73	747	36	98	518	96
September	123	683	2	43	573	64
December	109	710	4	40	604	62
Average for whole year	79	783	26	149	509	98

\* Note the decrease in the volume held by Federal Reserve Banks for account of foreign correspondents from March to December 1933.

The volume of commercial paper showed a small decline for 1933 as a whole as compared with 1932, whereas the volume of acceptances outstanding moved upwards slightly. The share of the total of acceptances outstanding held by the Reserve Banks both for own account and for account of foreign correspondents was rather larger than in 1932.<sup>1</sup>

TABLE XXI. INDEXES OF AMERICAN FINANCIAL CONDITIONS 1930-3 (YEARLY AVERAGES).

	1930	1931	1932	1933
<i>Security Prices*</i>				
1 Stock Prices. . . .	149.8	94.2	48.4	63.5
2 Bond Prices. . . .	81.25	74.95	49.97	83.6†
<i>Interest Rates</i>				
3 Bond Yields. . . .	4.52	4.68	5.87	5.62
4 Call-Loan Renewal Rate †	2.08	2.43	1.00	0.8
5 60- to 90-Day Bankers . Acceptance Rate†	1.97	3	0.37	0.25

\* Standard Statistics Index Number of Security Prices

† Last quarter of the year.

CHAPTER VIII  
CONCLUSIONS ON THE UNDERWRITING  
OF FOREIGN SECURITIES IN THE UNITED  
STATES

THE table at the end of the chapter gives a summary survey of the underwriting of foreign securities in the United States. It shows total par values, estimated funding amounts to Americans, and the estimated new nominal capital obtained by foreigners. The number of issues including refunding issues is also recorded by years. We are interested chiefly in the post-war period, but the years 1914 to 1918 are included to give a clear picture of the extraordinary change which took place in the country's outlook as a result of the demands made upon her by the European belligerents.

It will be noted that in 1914 the number of foreign issues was twenty-six and the new nominal capital obtained on behalf of foreign countries was estimated at 44 million dollars. The total rose in the first two years of the War, but declined after 1917. In the first post-war year, however, the number of issues was recorded at sixty-five, and the new nominal capital totalled 392 million dollars. From that time onwards with one exception (1923) each year showed a gradual increase in new nominal capital to 1927, when it was estimated at 1,336 million dollars. After that time interest in foreign issues declined until in 1933 the number of issues amounted to seven and the total new nominal capital was estimated at 12 million dollars.

The result of the last European war, as we have stated, was to transform the United States into a

creditor nation. Exports of goods increased and instead of the total excess of exports over imports being paid off in gold, it was settled to some extent by the use of credit. The sale of securities took the place of a transfer of gold. The United States was in the position to buy back her own securities held in Europe and Americans also purchased European and other securities.

The table indicates, however, that there were wide fluctuations in the totals of new foreign capital issues during the period. Now it has been stated that 'the fundamental economic force which drives capital from one place to another is the natural attraction of additional return, which generally takes the form of greater yield from the investments themselves such as higher interest rates on foreign bonds or better dividends on overseas stocks'.<sup>2</sup> That is normally the case, but the American did not generally prove true to the investing type. In fact, he took into account numerous other considerations. Even if the yield on foreign bonds was higher than on American bonds the former would not find a ready market in the United States unless they seemed absolutely safe. The American investor rapidly took fright at any sign of instability in the countries which sought American money. He was inclined to prove conservative and unreliable in investing outside the United States. Foreign political, social, and economic movements were taken into account. Even if these seemed favourable, before he ventured to interest himself actively abroad, he satisfied himself, usually, that conditions were better than within his own country and the slightest indication of an internal boom kept American funds at home to earn safe divi-

dends. In older investing countries a sustained efflux of capital is more usual, but the history of underwriting of foreign securities in the United States since the War is characterized by disturbing irregularity in the outflow of funds. In short, the American investor's attitude towards foreign investment has often been provincial.

Admittedly the United States investor stepped into the breach at times when the investor in London, for example, was unable to supply the necessary funds, and countries in financial difficulties were often assisted by being able to find a ready sale for their securities in the American money market. But unfortunately the timidity and cupidity of the American investor were often a considerable hindrance and would-be borrowing countries were embarrassed by the retention of American funds in New York for safer and more profitable use in American business and in stock-market speculation.

Foreign countries were in great need of American capital. They welcomed American exports, and since it was not possible to make repayment in goods or in gold, went farther into debt to secure them. The United States could have taken a compromise of two courses. She could have allowed her imports of goods to increase to balance the increase of her exports, and she could have maintained a steady outflow of capital. President McKinley once said that 'a system which provides a mutual exchange of commodities is manifestly essential to the continued and healthy growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy little or nothing.' What was true in his day

was equally true after the World War. Increased imports of goods would have removed the necessity of imports of gold which had such devastating effects both upon the economy of the United States and upon that of foreign countries. The tariff could have been modified by degrees, and at the same time the country could have increased her foreign investments to take care of her exports.

Her failure to adopt some such compromise has not only affected the United States adversely but has made her in part responsible for the world depression, and that depression will not lift completely until her attitude is changed. To quote Mr. J. M. Keynes: 'The whole course of international trade depends upon the steady flow of lending to the debtors equal to the surplus resources of the creditors.'

That is, loans from the United States must be made on a much larger scale. Even so, it must be kept in mind that sooner or later loans have to be repaid and some modification of the commercial policy of the country is clearly indicated. To date, the fluctuations in the totals of foreign capital issues have had serious consequences, and it is evident that the American investor needs to take this business seriously both because the United States cannot afford to be faced with a plethora of lending capital and because foreign countries suffer from a dearth of capital.

It is of interest to compare the net nominal value of foreign capital offerings in certain leading countries by means of Table XXII. It will be seen that the three countries showed a similar drop in foreign capital issues from 1929 to 1931.

In the case of the Netherlands, the 1931 total of foreign issues was only about one-sixth of the 1930 total. In the United States and Great Britain, foreign issues were only one-fourth and two-fifths respectively of those in 1930. In all cases they were very much below any other year of the period from 1926 to 1931. All three countries were affected alike by international financial disturbances, by political conditions, and economic depressions.

TABLE XXII. NET NOMINAL VALUE OF FOREIGN CAPITAL OFFERINGS IN THREE LEADING COUNTRIES 1926-31.

*In millions of dollars.*

<i>Year</i>	<i>United States</i>	<i>Great Britain</i>	<i>Netherlands</i>
1926	1,094.6	593.1	113.2
1927	1,319.7	743.5	138.9
1928	1,187.9	767.5	120.7
1929	660.2	541.4	55.4
1930	862.3	557.5	95.9
1931	223.4	224.3	15.9

*Note:* Since the British figures are based on price of issue, the net discount at which the American offerings were sold has been deducted in order to make the lists comparable. The 1930 total for Great Britain does not include £12 millions of German Government International loan (sterling).

But the importance of the United States as a centre for foreign security offerings is readily apparent, and there is no need to reiterate the advantages of economic and financial resources which will allow her to take precedence of other important centres. To the present, however, the percentage of new capital issues in that country has been smaller than in Great Britain, as the table following roughly illustrates.<sup>3</sup>



TABLE XXIII PERCENTAGE OF NEW CAPITAL ISSUES IN GREAT BRITAIN AND IN THE UNITED STATES FOR EXTERNAL PURPOSES 1919-32

Year	<i>Per cent of capital issues</i>	
	<i>Great Britain</i>	<i>United States</i>
1919	21.0	9.9
1920	15.5	11.0
1921	53.6	15.5
1922	57.4	15.7
1923	66.8	6.7
1924	60.0	18.0
1925	39.9	17.6
1926	44.4	18.2
1927	44.1	20.2
1928	39.5	16.3
1929	37.2	7.5
1930	46.1	14.5
1931	52.0	8.2
1932	25.9	2.3

It can be said that American insularity is gradually breaking down and European countries impoverished by war, and backward countries in need of capital for development purposes, have benefited accordingly. What is important of course is that countries dependent on American capital shall not be disappointed. It is understandable of course that in a world fundamentally shaken by the events from 1914 to 1918, the United States should have found it difficult to live up to her novel position of a creditor nation. Foreign investment on a large scale is a fairly new phenomenon in that country, and post-war conditions throughout the world after 1918 were not such as to inspire ready confidence. Furthermore, considerable criticism of the flotation of foreign issues has been made within the United States. Senator Carter Glass made the following indictment of the Hoover administration:

'With insatiable avarice the great banking institutions in the United States through their affiliates with their high pressure salesmanship, brought over and unloaded on the investing public of America, billions of dollars of foreign securities now practically worthless. The total amount has been computed as high as 16,000 million dollars, equal to the total national indebtedness of the United States up to 1929, and twice as great as the credit facilities of our Federal Reserve banking system. The record warrants the assertion that the Republican administration at Washington, through its Department of State was consequently responsible for the flotation of these worthless foreign securities. The State Department, without sanction of law, constitutional or statutory, and in utter disregard of all precedent, assumed the function of passing on these loans. It required the great international bankers and their affiliates to submit to the Government every one of these projected foreign flotations for approval or objection. Individual investors and bankers imputed moral responsibility to the Government and unscrupulous expert salesmen were enabled to sell these high interest-bearing but now worthless foreign securities in competition with our State, municipal, industrial, and commercial securities. Undeniably they filled the portfolio of interior banks, sometimes by coercion, with this immobile junk so that when the crash came these banks were in a state of paralysis and utterly unable to respond to the legitimate requirements of their respective communities. There resulted an era of bank failures, unprecedented since the foundation of the Republic and unapproached by financial collapse in any other

nation on the globe.' The Hoover administration met the charge by pointing out that approval had been given to foreign bond issues only as being in line with the Government foreign policy, and that no opinion had ever been expressed on their investment value. Previous administrations had, however, not hesitated in placing vetoes on undesirable loans, and it is difficult to see why this course was not followed under President Hoover. Be that as it may, although it can be doubted whether some of the issues were altogether wise, at the same time it can be safely said that a large percentage represents safe returns and that America has on balance gained and not lost from the post-war flotation of foreign issues. But it is interesting to observe that while Great Britain has probably over-invested abroad, the United States has been unduly cautious.

Attention must obviously be paid to the problem of restoring confidence both to the American investor and to the countries in need of assistance from him. An attempt will be made to deal with that problem in the concluding chapter.

We must now glance at the geographical distribution of issues. Tables XXIV and XXV show the total publicly offered foreign securities, by classes and by geographical divisions, from 1914 to 1931.

In the period 1914 to 1931 the net nominal capital obtained by Europe was greatest in amount. But in certain years the totals obtained by Latin American countries and by Canada exceeded that obtained by Europe. The relative importance of the actual new capital borrowing of different areas is brought out by the percentage distribution of the new nominal capital obtained in each year 1914 to 1931.

TABLE XXIV. TOTAL PUBLICLY OFFERED FOREIGN SECURITIES (GOVERNMENTAL AND CORPORATE) PURCHASED IN THE UNITED STATES 1914-31 BY CLASSES AND GEOGRAPHICAL DIVISIONS.

To nearest million dollars.

<i>Class of security and geographic grand division</i>	<i>No. of issues</i>	<i>Total nominal capital</i>	<i>Estimated refunding to Americans</i>	<i>Net nominal capital</i>
<b>1914 to 1931</b>				
<b>Governmental and government guaranteed issues.*</b>				
Europe . . . . .	262	5,157	492	4,665
Canada and Newfoundland . . . . .	566	2,389	599	1,790
Latin America . . . . .	215	2,202	457	1,745
Far East . . . . .	34	733	87	646
United States Territories and possessions	78	111	—	111
<b>Total</b>	<b>1,155</b>	<b>10,592</b>	<b>1,635</b>	<b>8,957</b>
<b>Corporate Issues:</b>				
International . . . . .	5	180	50	130
Europe . . . . .	243	1,509	108	1,401
Canada . . . . .	445	1,381	158	1,223
Latin America . . . . .	182	1,096	179	917
United States Territories and Possessions	42	96	20	76
Far East . . . . .	18	272	34	238
<b>Total</b>	<b>935</b>	<b>4,534</b>	<b>549</b>	<b>3,985</b>
<b>Total Issues:</b>				
Europe . . . . .	505	6,666	600	6,066
Canada and Newfoundland . . . . .	1,011	3,770	757	3,013
International . . . . .	5	180	50	130
Latin America . . . . .	397	3,298	636	2,662
Far East . . . . .	52	1,005	121	884
United States Territories and Possessions	120	207	20	187
<b>Total</b>	<b>2,090</b>	<b>15,126</b>	<b>2,184</b>	<b>12,942</b>

Includes Central Government, provincial and municipal issues, and corporate issues officially guaranteed or controlled.

TABLE XXV PERCENTAGE DISTRIBUTION BY GEOGRAPHIC AREAS, OF THE NEW NET NOMINAL CAPITAL OBTAINED THROUGH FOREIGN CAPITAL ISSUES PUBLICLY OFFERED IN THE UNITED STATES 1914-31.

Year	Total	Europe	Canada	Latin America	Far East	Non-contiguous American territories and possessions
1914	100	25.0	30.5	39.3	..	5.2
1915	.	74.5	19.4	5.8	..	0.1
1916	.	72.4	14.0	12.5	0.7	0.4
1917	.	57.9	31.0	10.4	0.2	0.5
1918	.	..	79.8	11.0	..	9.2
1919	.	58.2	29.3	8.6	0.2	3.7
1920	.	49.7	37.0	9.9	..	3.4
1921	.	25.1	31.0	36.8	2.5	4.6
1922	..	27.7	22.0	29.3	14.7	6.3
1923	.	25.7	28.5	27.2	16.8	1.8
1924	.	54.3	15.7	19.3	9.9	0.8
1925	.	58.5	12.7	14.7	13.2	0.9
1926	.	43.0	20.1	32.7	2.8	1.4
1927	.	43.2	17.7	25.4	11.3	2.4
1928	.	47.8	14.8	26.4	10.5	0.5
1929	.	21.1	43.1	26.1	7.7	2.0
1930	..	21.8	30.6	23.3	6.6	0.8
1931	..	27.3	62.4	1.0	6.6	1.9

While Europe obtained most in the period 1914 to 1931, Canada's total is impressive. Third on the list comes Latin American countries, followed by the Far East. United States territories and possessions and international loans make up the remainder but in comparatively insignificant amounts.

Of European borrowing countries, Great Britain, France, Germany, and Italy were the most heavily indebted. Great Britain and France borrowed heavily from 1914 to 1918, but the debt of Italy and Germany has been added to largely since the

end of the War. Belgium, Norway, Denmark, Sweden, Poland, Switzerland, and the Netherlands also borrowed during the period to 1931, but with the exception of Denmark and Sweden, the bulk of the securities offered for these countries was for the purpose of facilitating the return to a gold monetary standard.

It is interesting to find that Canadian issues in the United States have been substantial in nearly every year since 1914. It has become more usual nowadays for them to be placed domestically and in the United States, whereas hitherto they were offered in London. Latin American issues have been chiefly for the Argentine, Cuba, Chile, Brazil, and Colombia.

TABLE XXVI. FOREIGN SECURITIES PUBLICLY OFFERED IN THE UNITED STATES 1932 AND 1933\*.

To nearest million dollars.

Issues and class of security	Par value of flotation in the United States		Estimated refunding to Americans	
	1932	1933	1932	1933
<i>Government and Government Guaranteed Corporate.</i>				
Canada . . . . .	73	60	44	54
Germany . . . . .	6	—	6	—
Union of Soviet Socialist Republics . . . . .	—	5	—	—
United States territories and possessions . . . . .	—	1	—	—
<i>Corporate</i>				
Germany . . . . .	9	—	9	—
Canada . . . . .	0.7	0.1	—	—
Argentina . . . . .	—	6	—	6
Cuba . . . . .	—	0.7	—	—

\* Source: Trade Information Bulletins No. 814 and No. 819.

Of the Far East, Japanese issues have predominated. For example, in 1931, the offerings of

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Japanese securities made up the total for the Far East. But offerings have also been made in the period on behalf of Australia, the Netherland East Indies, and a small amount has been placed for China.

TABLE XXVII TOTAL PUBLICLY OFFERED FOREIGN SECURITIES (GOVERNMENTAL AND CORPORATE) PURCHASED IN THE UNITED STATES 1914-33

*In millions of dollars*

Year	Number of Issues	Total nominal capital*	Estimated refunding to Americans†	Estimated new nominal capital‡
1914	26	44.6	0.6	44
1915	80	81.7	1.3	80.4
1916	102	1,159.6	5.7	1,154.9
1917	65	720.2	37.6	682.6
1918	28	23.4	2.6	20.8
1919	65	77.1	37.9	39.2
1920	104	602.9	105.4	497.5
1921	116	60.2	6.9	62.3
1922	152	86.3	9.9	76.4
1923	76	497.5	7.7	419.5
1924	120	1,217	247.9	969.1
1925	164	1,316	239.7	1,076.3
1926	230	1,288	163	1,125
1927	265	1,577	240.6	1,336.4
1928	221	1,489	23.8	1,251
1929	148	70.5	3.4	67.1
1930	121	1,087.5	182.2	905.5
1931	41	28.5	5.6	22.9
1932	7	8.8	5.9	2.9
1933	7	7.2	6.0	1.2

\* Nominal capital refers to securities actually sold in the United States

† Estimated refunding to Americans covers the amount of a given issue assignable to the redemption of existing bonds and notes of the borrower, not previously retired through sinking fund operations, held by investors in the United States.

‡ Estimated net nominal capital is the nominal (face) value less the estimated refunding.

In 1932 foreign securities publicly offered aggregated 88 million dollars, of which 59 millions represented funding issues. Canada obtained the major portion of that total, and, again, in 1933, Canada figured prominently in the lists, but a number of other countries including the Union of Soviet Socialist Republics offered securities in the United States. But for that year the total foreign lending in that country was once more very small.<sup>4</sup>



CHAPTER IX  
THE BALANCE OF INTERNATIONAL  
PAYMENTS OF THE UNITED STATES  
REVIEWED

THE creditor position of the United States has become increasingly important since the end of the War, as we have seen. At the end of this chapter summary tables are given of the balance by periods 1919 to 1933 and of the movement of private long-term investment funds in the same years.

We have noted that in each year there has been a favourable balance of trade, and in the period 1922 to 1933 (leaving out the abnormal totals of the immediate post-war years) the average annual favourable balance of trade was 610 million dollars. In the same period the estimated net return from private investments (long- and short-term) averaged 430 million dollars and war debts (principal and interest) averaged 173 million dollars annually. The net average annual income from these three items was approximately 1,213 million dollars.

On the other hand, claims against the United States through other current items, tourist expenditures, immigrant remittances, charity, &c., have averaged approximately 739 million dollars a year. Other current invisible items such as shipping and freight costs and governmental transactions swelled this annual average to 822 million dollars.

That is, the average annual credit balance on international current account was approximately 391 million dollars from 1922 to 1933.

The net movement of gold and currency in the

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same period was an annual average import (that is, a debit) of 60 million dollars.

The average annual net export of long-term investment funds or the net import of securities (a debit item) was estimated at 298 million dollars. The estimates of the net inward and outward movements of short-term funds over the twelve-year period are within an average of 37 million dollars (debit) a year of offsetting each other.

From 1922 to 1933 approximate annual averages of the balance of payments are as follows:

Balance on current account	. 391 million dollars (credit)
Net gold and currency movements	60 million dollars (debit)
Net movement of private long-term investment funds	. 298 million dollars (debit)
Net movement of short-term funds	37 million dollars (debit)
Net unestimated items, errors and omissions	. 4 million dollars (credit)

In prosperous years, the United States increased her long-term investments abroad by amounts equal to or larger than her current account surplus—covering her excess long-term lending by going into debt on short-term account or selling gold. Even in 1929 and 1930 she continued to lend abroad at long term, reinforcing the process by lending short as well. In 1931, 1932, and 1933 she actually withdrew long-term loans in the sense that while her new investments abroad were small, foreigners acquired large quantities of their own issues in America and of American securities proper. This weakening of her creditor position was offset along with the current account surplus by short lending. The following table illustrates her position:

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TABLE XXVIII SUMMARY OF BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES 1922-33 (YEARLY AVERAGES)

*In millions of dollars*

	1922-4	1925-9	1930-3	1933(actual)
Balance on current account	+443	+444	+282	+210
Balance, gold and currency	-248	+25	-25	+83
Net short-term capital account	+198	+184	-488	-385
Movement of private long-term capital	-399	-517	+52	+49
Net investment items, errors and omissions	+6	-136	+179	+43

In this way, the credit balance on current account has been met. From the table it will be noted that there was little difference in the balance on current account between the periods 1922 to 1924 and 1925 to 1929, but that the balance dropped in the third period 1930 to 1933. But the final balance was achieved by wide fluctuations in the capital movements. In the last period the small amount of foreign lending from the United States reduced by a considerable amount foreign balances in the United States. In 1933, the net outflow of short-term capital was almost twice as large as the balance on current account.

Although the United States is a strong creditor on account of long-term capital, the experience of 1931 to 1933 is illustrative of the fact that she did not increase her creditor position after the War as much as is commonly supposed. For while she lent large sums abroad, part of these loans was bought back from foreigners while foreigners invested on a large scale in American securities, as can be seen from Table XXXII at the end of this chapter.

From 1926 foreign activities in the American money market became more extensive until in 1931 the United States was borrowing more on long-term account from abroad than she was lending abroad. So that the figures which seem to indicate enormous new issues floated in America for foreign countries are not a completely true picture of a corresponding outflow of American money. To some extent the United States borrowed money (especially from Europe) and lent it out again. As Dr. Virgil Jordan, chief economist of the National Industrial Conference Board stated: 'At present, the United States is merely coming of age as a creditor nation. We are by no means fully developed industrially and financially. Despite our rapid and sudden alteration from a debtor to a creditor nation, we still stand in this respect midway between the older and more highly industrialised nations of Europe and the undeveloped nations like Canada and of South America destined for long to withdraw capital from the former for our own development and to lend capital to the latter for theirs.' Attention must be paid also to short-term lending and borrowing in the United States. Table XXIX shows movements of short-term capital from 1925 to 1933.\* It will be noted that there was a big increase in foreign balances held in the United States. From 1925 to 1929, net short-term indebtedness of the United States to foreigners increased by 1,483 million dollars. There was an especially large increase in foreign funds invested in American acceptances, particularly from 1927 to 1929, when they increased

\* A more detailed study is given in Table XXXV of the Appendix.

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from 406 million dollars to 891 millions. In the same period the figure of foreign deposits with American banks was on an average about nine times as great as the total of American deposits abroad.

TABLE XXIX SHORT-TERM INTERNATIONAL CAPITAL MOVEMENTS TO AND FROM THE UNITED STATES (SUMMARY) 1925-33.

*In millions of dollars*

	1925	1926	1927	1928	1929	1930	1931	1932	1933
Due to foreigners	1,674	2,041	3,099	2,893	3,639	2,737	1,465	913	487
Due from foreigners	951	990	1,235	1,305	1,483	1,802	1,239	1,058	1,082
Net short-term indebtedness to foreigners	723	1,051	1,864	1,588	2,156	935	226	-145	-595

In 1930 American short-term indebtedness to foreigners began to decline. The years 1931 and 1932 witnessed exceptionally heavy withdrawals of foreign-short-term funds which shrunk from 2,737 million dollars in 1930 to 913 million dollars in 1932. American short-term funds abroad moved from 1,802 million dollars to 1,058 millions in the same period. For the first time, the United States was a creditor in 1932 to a small net amount in respect of short-term funds. A further shrinkage of foreign balances held in the United States followed in 1933, and the total due to foreigners was only 487 million dollars as compared with a total of 3,639 millions in 1929. American short-term funds held abroad moved downwards to 1,082 million dollars from a total of 1,483 millions, in the same period. This change in the debtor position of the United States on short-term capital after 1929

is due to a number of causes. Money flowed outwards because of a decline in speculative activities in the United States and falling interest rates made investments less profitable. Then, as banking crises developed in central Europe, certain countries withdrew funds. When gold payments were suspended in England, European creditor banks shifted their demands from London to New York. The large withdrawals from the United States culminated in the heavy outflow from February to March 1933, driven from the country by rumours of an impending financial, monetary, budgetary, and economic crisis.

It will be noted from the table that America's position at the end of 1933 was the reverse of that at the end of 1929.

Thus, although the importance of the United States as a creditor increased, it was offset to some extent by long-term investments made in the United States by foreign lending countries and by other capital movements.

Importance should be attached, therefore, to the great potentialities of the United States as a borrowing and lending country. The world financial situation can be vitally affected by American events—by the economic expansion of the country, by the credit policy, by the use or misuse of funds placed in the New York money market. Bankers all over the world depend upon America for working funds, and to countries like Germany, foreign capital has been indispensable for economic construction and restoration. But the United States must also be taken into account as a borrowing country. In the past she has been able to attract funds because she has seemed to have fewer political

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and social upheavals than countries elsewhere and her policy has not been such that it discouraged an inflow of capital. On the contrary, a credit policy which operated in such a way that a stock market boom was promoted and held for some years, is a distinct encouragement. By 1929, as we have seen, from different causes, high interest rates prevailed in New York, and foreign countries were obliged to raise their discount rates to check the movement in New York. The following table is instructive.

TABLE XXX ALTERATIONS IN DISCOUNT RATES IN THE COURSE OF 1929

	To October 1929	In November 1929
England . . .	4½ to 6½ per cent.	6½ to 5½ per cent
Netherlands . . .	4½ " 5½ " "	5½ " 5 " "
Belgium . . .	4 " 5 " "	5 " 4½ " "
Austria . . .	6½ " 8½ " "	8½ " 8 " "
Hungary . . .	7 " 8 " "	8 " 7½ " "
Norway . . .	5½ " 6 " "	6 " 5½ " "
Poland . . .	8 " 9 " "	9 " 8½ " "
Peru . . .	6 " 8 " "	8 " 7 " "
Rumania . . .	6 " 9½ " "	9½ " 9 " "

When the New York money market became less attractive, foreign funds were withdrawn. But given a renewed boom in finance and industry, the United States will prove a very strong magnet to investors in other countries. Thus the country is a source both of weakness and strength to the outside world.<sup>1</sup>

TABLE XXXI. BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES BY PERIODS 1919-33 (YEARLY AVERAGES)

In millions of dollars

Item	1919-21	1922-4	1925-9	1930-3	1922-33
<i>Debits</i>					
Movement of private long-term capital . . .	706	399	517	..	298
Short-term capital account (net) . . . . .	..	..	..	488	37
Tourist expenditures . . . . .	133	400	555	414	469
Immigrant remittances . . . . .	600	372	284	178	270 <sup>a</sup>
Gold and paper currency . . . . .	128	248	..	25	60
Miscellaneous invisible items* . . . . .	1,037	13	129	136	83
Unestimated items, errors and omissions . . . . .	692	..	136	..	..
	3,296	1,432	1,621	1,241	1,217
<i>Credits</i>					
Movement of private long-term capital . . . . .	..	..	..	52	..
Short-term capital account (net) . . . . .	..	198	184	..	..
Commodity trade balance . . . . .	2,981	692	724	408	610
Gold and paper currency . . . . .	..	..	25	..	..
War debts receipts . . . . .	128	199	200	118	430
Interest and dividends . . . . .	60	260	488	484	173
Miscellaneous invisible items* . . . . .	127	77	..	..	..
Unestimated items, errors and omissions . . . . .	..	6	..	179	4
	3,296	1,432	1,621	1,241	1,217

\* Includes government transactions; shipping and freight items; and miscellaneous current items.



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TABLE XXXII MOVEMENT OF PRIVATE LONG-TERM INVESTMENT FUNDS 1919-33

*In millions of dollars*

<i>Year and balance</i>	<i>New security issues floated*</i>	<i>Direct investments</i>	<i>Foreign stocks and bonds bought from foreigners</i>	<i>American stocks and bonds bought back from foreigners</i>	<i>Foreign stocks and bonds resold to foreigners</i>	<i>American stocks and bonds sold to foreigners</i>	<i>Bond-redemption and sinking fund payments and receipts</i>	<i>Net movement</i>
1919 Balance	-436	-300	-39	-195	†	†	+515	-455
1920 Balance	-506	-200	-481		†		+571	-874
1921 Balance	-665	-200		-227		+48	-255	-789
1922 Balance	-637	‡		-326		+216	+78	-669
1923 Balance	-363	‡		-54		+412	+23	+18
1924 Balance	-795	‡		-114		+319	+45	-545
1925 Balance	-920	‡		-90		+411	+140	-459
1926 Balance	-1,002	-157	-115	-509	+286	+635	+257	-605
1927 Balance	-1,183	-178	-154	-650	+395	+831	+234	-705
1928 Balance	-1,124	-258	-559	-1,135	+449	+1,661	+291	-675
1929 Balance	-635	-261	-353	-1,054	+474	+1,489	+199	-141
1930 Balance	-833	-183	-360	-916	+806	+1,035	+173	-278
1931 Balance	-213	-182	-347	-495	+659	+589	+207	+218
1932 Balance	-27	-33	-225	-305	+385	+300	+122	+217
1933 Balance	-10	-33	-685	-580	+565	+760	+73	+94

\* Excludes underwriters' commissions, discounts, and re-funding

† Included in figures for purchases of American and foreign stocks and bonds which are net figures.

‡ Not estimated.

## CHAPTER X

### CONCLUSION

WE have examined the American money market and have attempted to indicate from developments in the sub-markets:

- (1) the relations established with the outside world and their effects;
- (2) their repercussions upon national economic welfare.

We have found that these have at times been helpful—at others harmful, and it is our purpose now to summarize possible causes and possible remedial measures. We must also examine briefly the attempts which have already been made in the United States to deal with certain of the more obvious evils.

We have indicated the creditor position of the United States and have noted that in the post-war era the country was faced with a novel situation. She was suddenly transformed in a world fundamentally shaken by the events of 1914 to 1918 into an important creditor nation. The new relationships involved were unexpected, and her attitude, as we have seen, has often been provincial. We have pointed out the need for a modification of the tariff. Fortunately, within the United States recognition of that need is growing. The U.S. Secretary for Agriculture, for example, has lately issued a pamphlet, *America must choose*, in which he shows that America 'has more industrial as well as more agricultural capacity than it needs for home consumption'. The surpluses, he says, must be 'swapped for something that we want',

and there is reason to hope that the new policy will aim at simplifying the foreign trade problem 'by blunting the objection to accepting imports in payment'. That is a notable step forward and a revision of the tariff would be acceptable to foreign countries. Moreover, it would be of service to the United States. It would assist American industries, some of which as we have seen are dependent upon the export trade. A recent bulletin of the Guaranty Trust Company urges American business men to face up to the realities of the situation in the following words: 'Whether we like it or not, the fact remains that our economic structure has been developed and our productive capacity adjusted to a type of output that is dependent upon foreign markets and those markets depend absolutely on our willingness to accept foreign goods and services in exchange for our own.' It proceeds to state that in 1932 exports from America provided at least 2 million workmen with employment, while in addition there were about 1½ million persons engaged in activities supplying the direct needs of those directly employed. Furthermore, it shows that America's links with other countries are now so close that every one within the United States feels the effects of a world-wide depression. So that a policy which makes it easier for foreign countries to sell goods to America will do much to relieve the United States itself. The Tariff Act which empowers the reduction of Customs Duties by 50 per cent. is a move in the right direction. Too much emphasis, of course, must not be placed upon America's dependence upon foreign markets for her goods, because obviously there is a large market within the United States to be exploited.

Moreover, the country is not dependent upon imports of goods to anything like the extent that other industrialized countries are, and probably exports of goods from the United States will have to be balanced by increasing invisible imports such as increased expenditures of American tourists abroad, and immigrant remittances. Foreign countries may find themselves obtaining more and more goods from the United States by selling scenery and labour to that country—which would be as possible a solution of the problem as any.

The Recovery programme has attempted also to secure a recovery in investment. The distrust which characterized the foreign security market in the past five years of the period under review expressed itself also in the domestic security market from 1930. By 1933 the total volume of capital issues was very small indeed, and again in 1934, although presumably the United States was set on the road to recovery, the total for the first six months was only about as large as that for the same period of 1932, when the country was deep in depression. Critics of the Roosevelt Administration have held the Securities Act responsible for this depression in the capital market, and it cannot be denied that its provisions are at any rate not encouraging to the flotation of new issues. Some slight modifications of the Act have been made since it was passed, but the general character of the measure remains unaltered. The real reason, however, for the low level of capital issues is to be found probably in the depressed conditions of business generally, and if recovery is brought about, the capital market will respond accordingly. But the movement might be helped if the United

States proceeded next to setting up a national investment corporation—both for domestic and foreign financing—an organization which would be like Caesar's wife and which would be administered in such a way as to give reliable advice to the lender as to the nature of the proposed issues. Investment could then be directed to legitimate ends and the interests of both borrower and lender could be safeguarded. Foreign countries could assist by setting up similar bodies to supervise investment within their borders and to provide the necessary safeguards.

The United States has also to deal with the problem of the inflow and outflow of foreign funds for, as we have observed, these have been contributory factors to financial crises. In this matter again, foreign countries have to share responsibility by attempting to control the flow of money and by co-operating closely with the Federal Reserve System in its banking and credit policy. The United States itself would be justified in placing an embargo upon the influx or efflux of such funds when crises threaten, but the authority responsible would need very much more control than is now possible over the different sections of the money market. It may well be that extraordinary measures will be required because the abundance of mobile short-term capital will continue to be a disturbing factor until the different currencies have achieved stability and until international finance, trade, and commerce operate more normally.<sup>1</sup>

Next, inquiry must be made into the working of the Federal Reserve System.

The gold imports of the United States were not wholly sterilized as is generally believed, but were permitted to create a vast expansion of credit. For

one reason or another, the Federal Reserve System assisted in that expansion. On occasion, the acceptance market had to be supported by the System. Then, at times, a cheap money policy was deemed necessary for the encouragement of business—or to help Europe. The two purposes were on more than one occasion in conflict.

While other forces can also be held responsible for the crash on Wall Street in 1929 which created universal havoc (e.g. imports of gold, the policy of business corporations, unwarranted extensions of credit by the member banks, foreign lending activities, &c.) the Federal Reserve System is in part to blame. Its policy was unstable and erratic. 'Instead of permitting the automatic expansion and contraction of credit to accommodate itself to increasing or diminishing demands of business, limited only by changes in reserve; or, on the other hand, applying gradually increasing pressure as credit needs and issues expand in prosperous times, in order to prevent undue expansion and subsequent collapse, and then discouraging decreases in times of depression in order to turn the tide upward again, the Federal Reserve System has expanded credit only a little when business was active and needed it, and expanded it a great deal when business was dull and did not need it.'<sup>2</sup> The result has been that activities have increased in directions for which the Federal Reserve System, oddly enough, did not consider itself responsible. These activities will be repeated in the future unless the system manages its credit policy better. It should make up its mind once for all that the best way to help Europe is by being successful in maintaining stability within the United States.

The Federal Reserve Board has always taken up the position that its business was not to set itself up as an arbiter of security speculation or values, and that there was no ready method in reserve banking by which the use of reserve facilities could be withheld from uses in undesirable lines of activity without being withheld from use in desirable ones.<sup>3</sup> An attempt was, however, made in the banking reforms of 1933 to supply such a method when the Federal Reserve Banks were given power to supervise the lending activities of member banks in order to prevent undue use of bank credit for speculation in stocks or commodities, and the Federal Reserve Board was authorized to fix for each reserve district the maximum percentage of a bank's capital and surplus which might be represented by loans on stocks and bonds. The same Act also provided for the divorce of security affiliates from member banks within a year, prohibited interlocking directorates with security firms or stock-broking houses, and forbade personal loans from member banks to their executive officials.

Whether these reforms achieve their purpose remains to be seen, but other adjustments need to be made.

We have seen that at times changes have been effected in discount rates in order to stimulate business, but at other times the system has seemed to act without reference to the needs of trade and industry. The fault has been that there has been no consistent discount policy. 'The Reserve System has neither developed a clear-cut and uniform philosophy of discount rates nor a technique which will permit of the prompt application of any given

change at a time that will result in making it effective throughout the nation.<sup>4</sup>

The Federal Reserve System fails both because of lack of co-operation within and without, and because of political<sup>5</sup> and international complications. There is general agreement that banking organization needs thorough overhauling, so that it might be better fitted to serve a world which has grown increasingly interdependent. The United States must first be considered as an economic unit and interdistrict difficulties solved so that the Reserve System can operate successfully through the entire continent. The predominant position of New York as a financial centre must be conceded, but at the same time arrangements must be made so that the rest of the country need not lose by that pre-eminence. Representation on the Federal Reserve Board could be made more varied so that it might reflect more than political and legal interests and could include finance experts, business and labour interests. International claims could be satisfied by making wider use of the practice of seeking the co-operation of experts of foreign countries.\*

While the Federal Reserve System can do much to control credit<sup>6</sup> and speculation within limits, the remedy for excessive speculation lies with the Stock Exchange itself.

Considerable publicity has been given to the malpractices of speculation in the United States because of the spectacular collapse in security values after 1929, and the mandate given to President Roosevelt by his supporters included the punishment of Wall Street and the regulation of the Stock Exchange. There is every reason, of course, why speculation should have been popular



in the country. As Walter Lippman pointed out in the *Chicago Daily News* (July 25th, 1933): 'Our love of speculation has its roots deep in our history. A nation which has expanded as we have expanded upon the richest natural resources in the world is naturally and inevitably bullish . . . on the whole and in the long run speculation for a rise has always seemed to justify itself.' Now normal speculation is obviously of use to the business community. 'Such speculation which was defined by Justice Holmes as the "self-adjustment of society to the probable" gives the producers the benefit of higher prices before a shortage in their product develops and gives the start to business before it could otherwise occur.'<sup>7</sup> But the difficulty is that upward movements cannot easily be controlled and abnormal speculation is exceedingly injurious. It leads inevitably to a reaction and consequent depression in which, as things are to-day, the whole world shares. Business is adversely affected, and while it can be denied that industry is deprived of capital, it can be asserted that untoward happenings on the Stock Exchange attract funds which enter industry only by a very indirect route. Furthermore, the banking system is itself affected, as the recent collapse of some thousands of banks in the United States testifies.

Extensive investigations of activities on the Stock Exchange have been made<sup>8</sup> and drastic action has been taken to prevent a repetition of the abuses of recent years. Speculative buying and selling of securities on small margins is to be checked. A minimum cash margin for all purchases is laid down, which can be raised whenever speculation gets out of hand. By this means it

is hoped to limit the volume of credit entering speculation. Brokers' loans are to be limited in a variety of ways. A Stock Exchange Commission has been appointed with considerable powers to regulate short sales and stop loss orders, &c., to forbid dissemination of false or misleading information with regard to security movements, to ensure that the public is provided with adequate information on the affairs of listed companies and to discourage the unfair use of insiders of knowledge which is not available to stockholders generally. .

From what we have said above, it is obvious that there is a case for the professional speculator who performs an economic function, but it is exceedingly difficult to distinguish between the professional speculator and the gambler. It is claimed that the new measure has failed in this respect, and, moreover, that it has not succeeded in suppressing the anti-social activities of the gambler. It would be a pity to throw out the baby with the bath water, and it is probable that other methods of suppressing illegitimate speculation would be more efficacious. It has been suggested that a technical alteration might be of service. In New York it is customary to settle all transactions daily, which makes it difficult for the flow and rate of credit to be regulated by the banking authorities. To quote the President of the First National Bank of Chicago: 'With a call money market daily making the rate for funds, it is impossible for any banking agency to influence the flow of money more than nominally.' If the English system of fortnightly settlements could be adopted, it is claimed that certain advantages would be gained. Smaller amounts of money would be tied up on the Stock Exchange,

for the funds required at the end of each fortnight are relatively small when the total trading on the Exchanges is considered and can be largely provided for by the banks without disturbing the money market enough to hinder it from maintaining its functions. Thus the other markets which are now subjected to the competition of the call loan would have the chance of funds placed at their disposal. Rates in the money market would thus be regularized, and the development of other markets could be more healthy. Further, it is claimed that irresponsible speculation could be checked because the broker would have to take a bigger risk. He would have to be more careful in selecting clients. Interest would have to be paid for a longer period, and this would have a deterrent effect upon an unwarranted boom in speculation.<sup>9</sup> On the other hand, as the *Economist* (February 17th, 1934) points out, the London method of fortnightly settlements 'is equivalent for many transactions to dealing on no cash margin at all', that 'in many ways speculation is far easier in London than New York', and 'the fact that the New York Stock Exchange has always been a gamblers' casino as much as an investor's market-place can be explained only by the different popular attitude towards investment and by the whole structure of the financial system of the United States'. A more effective method of putting an end to illegitimate speculation, it is suggested, would be the abolition of the system of touting securities through the length and breadth of the land. Matters might be improved also if every gap which permits non-banking funds to be used on the Stock Exchange were closed.<sup>10</sup>

We have seen that other sub-markets of the New York money market have been penalized by the popularity of the call loan, but the slow development of the commercial paper and acceptance markets is not due entirely to this cause. We have indicated some of the reasons for the decline of the former market, and it is probable that it is likely to grow less important if the present system of banking in the United States gives place to another. That is, 'whether the commercial paper market will prove a lasting institution or not depends on the continued existence of the unit type of banking system. If this should be superseded by a branch type of banking system with the branch system covering wide economic areas, there would be little need for the commercial paper houses, since their function would be assumed by the branch systems which would bring about a high degree of mobility of funds and credit. With a unit independent type of banking system, the commercial paper loan still has an important economic function to perform.'<sup>11</sup> The serious break-down in the American system of banking latterly has brought the whole question of banking reform into the limelight. Under the Glass-Steagall Banking Act, branch banking has been allowed in states where it is permitted by state law. The ban on branch banking has already been removed in several states, and it is believed that it may be generally withdrawn. In that case, as the quotation indicates, the services of the commercial paper loan would no longer be of value in the financial structure.

Consideration of the acceptance market is more necessary because the continued development of the acceptance market is of great importance to

the United States. It is indispensable for the proper functioning of the Federal Reserve System, for in this market the Reserve Banks have some means of controlling the supply of credit. Further, not only are the movements of raw materials and food-stuffs to and from and within the country facilitated, but the bill market also permits a closer relationship between the New York money market and foreign money centres, as foreign banks use foreign balances in the United States and United States' banks buy bills in foreign centres.<sup>12</sup> Until quite recently, however, the development of the acceptance market has not been a natural one. We have seen that the Federal Reserve System has helped the acceptance market as a means of furthering its own credit policy, but unfortunately the readiness shown by the Reserve Banks to purchase acceptances has not only relieved the member banks of their responsibility in supporting the market but has allowed them on occasion to avail themselves of Reserve Bank credit by sales of acceptance to Reserve Banks. The funds which have been put at their disposal by these means and those which were already at their disposal by their policy of withholding support from the acceptance market have naturally found their way into markets on which the return is more remunerative. Thus the efforts of the Federal Reserve System to restrict credit have been rendered useless. From 1929 to 1932 a change took place in the purchases of acceptances by the Reserve Banks. These years were periods of unusual conditions in the money market. Many large banks with surplus funds and no acceptances turned to acceptances, notwithstanding the very low yield. It is possible that

they will not normally carry such a large volume of bills, but it is probable that the experience which they have had with bankers' acceptances as a secondary reserve will encourage them to continue the practice to some extent at all times.<sup>13</sup> It is suggested that if the Federal Reserve Banks would allow bill rates to seek their own competitive levels, then the responsibility for the acceptance market would be shouldered by the money market as a whole.<sup>14</sup>

Further, the efficiency of the present economic system in the United States would be increased if it were kept in mind that prosperity depends upon a proper balance between production and consumption. We have suggested that it would be wiser if the spirit of 'give-and-take' permeated America's international, financial, and economic relationships, but also it is necessary to point out that any policy which still leaves huge surpluses in the hands of a minority in the United States is doomed to failure. President Roosevelt is justified in insisting that work and not speculation must be the basis of real recovery. Now, although it is true that persons in the country with comparatively low incomes were not backward in speculating, it is obvious that persons and corporations with large balances to spare led the way and contributed most to the disastrous upward movement on the Stock Exchange. It is imperative that general purchasing power should be increased, and it can be doubted whether the policy of forcing maximum hours and minimum wages goes far enough. It is not much use indicting investment bankers or the banking system if the whole social organization is faulty.

## NOTES

### CHAPTER I

1 See Donaldson, J, *International Economic Relations*, 1928, p 434

2 Cf *Recent Economic Changes*, 1929, vol i, pp 1-12, Trade Information Bulletin No 814 *The Balance of International Payments of the United States in 1932*, Bogart, E. L., *Economic History of the American People*, 1930, Kemmerer, E W, *The A B C of the Federal Reserve System*, 1932, International Chamber of Commerce *Monographs presented to the Europe-United States Committee for discussion at the Washington Congress*, 1931, vol iii, European Monograph by Henry Clay

### CHAPTER II

1. See Myers, M, *The New York Money Market*, 1931, vol 1, p vi

2 Cf Ruefler, W. W, *Money Rates and Money Markets in the United States*, 1930, pp 5-15

3 Cf. Gruffiss, Bartow, *The New York Call Money Market*, 1925

4. *Ibid.*

5 Note that brokers' loans are not a complete index to the volume of credit used in security trading 'Large amounts of stocks and bonds are bought and paid as in full by investors, corporations, trustees and insurance companies' These funds are not classified as brokers' loans 'Only loans to brokers and dealers in securities are so classified' See Dice, C A, *The Stock Market*, 1926, p 511.

6 See Goldenweiser, E. A., *The Federal Reserve System in Operation*, 1925, p. 55

7. Cf. *Acceptance Bulletin*, November 30th, 1930.

8 See Beckhart, B. H., *New York Money Market*, vol iii, p. 259

9 Cf *Facts and Figures relating to the American Money Market* (American Acceptance Council), pp 11-15

10 See *Acceptance Bulletin* (date above)

11 Cf *New York Money Market*, vol iii, pp. 247. 'Changes in the commercial paper rate are regarded as accurate reflectors of changes in the money market as a whole—in recent years, there has been a close direct connexion between fluctuations in commercial paper rates and the volume of member bank borrowings and all Reserve Banks Large borrowings would be an evidence of a draining of reserve funds from the money

market or from the country as a whole and would make banks less willing to buy open market paper.'

12. Cf. *Federal Reserve Bulletin*, July 1929, p. 432 et seq.

13. Cf. Riefler, pp. 34-5

14. Cf. *American Economic Review*, September 1921, Youngman, A., 'The Efficacy of Changes in the Discount Rates of the Federal Reserve Banks'.

15. Cf. *American Economic Review*, March 1914, Willis, H P., 'The Federal Reserve Act'

16. Cf. *Journal of Institute of Bankers*, December 1929, Gregory, T. E., 'The Practical Working of the Federal Reserve Banking System'.

17. Cf. Day, J. P., *The Money and Banking Systems of the United States*, 1930, pp. 114-20, for a detailed criticism of the Federal Reserve System.

Note banking reforms reviewed in later chapters which gave the Federal Reserve Banks additional powers to make loans

### CHAPTER III

1. See International Chamber of Commerce. *Europe-United States of America*, 1931, volume II, Bruins, G W J., 'The Movement of Capital between Europe and the United States of America', p. 371

2. Cf. Trade Information Bulletin No. 698 *The Balance of International Payments of the United States in 1929*

3. See Trade Information Bulletin, No. 814 *The Balance of International Payments of the United States in 1932*, p. 2.

4. See Trade Information Bulletin No. 698.

5. Cf. Trade Information Bulletin No. 814, p. 1

6. *Ibid.*, p. 2.

7. See Department of Overseas Trade (Great Britain): *Economic and Trade Conditions in the United States*, March 1931, p. 47.

8. Cf. Moulton and Pasvolsky, *War Debts and World Prosperity*, 1932, p. 409.

9. Cf. Department of Overseas Trade (Great Britain): *Economic and Trade Conditions in the United States*, February 1933, p. 41.

10. Note (a) that the word 'tourist' is used in a very broad sense, in estimating tourist expenditures' item. It includes all United States citizens resident abroad for purposes of business, pleasure, education or professional travel, and also the expenditures of alien residents making trips abroad from the United States, although in certain cases the expenditures of the latter might more properly be included in immigrants remittances.



The totals arrived at and included in the balance like those for immigrant remittances are more or less rough estimates, based very largely on questionnaire returns

(b) War debts receipts include payments on account of both principal and interest. The following table gives detailed information of receipts 1919-32.

*In millions of dollars*

<i>Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Year</i>	<i>Principal</i>	<i>Interest</i>
1919	69	174	1926	35	160
1920	47	6	1927	46	160
1921	48	39	1928	50	157
1922	31	126	1929	62	145
1923	91	167	1930	77	164
1924	23	159	1931*	21	92
1925	27	160	1932*	32	67

\* Note decline in receipts

(c) Miscellaneous current items include insurance, motion pictures royalties, cable charges, Canadian electrical power, press subscriptions, patents and copyrights, advertising, silver, &c

(d) Government capital account represents direct credit advances by U. S. Government to foreign governments and credits extended by the War Finance Corporation and the United States Grain Corporation. It excludes war debt receipts.

(e) Note that the figures for public offerings must not be confused with the export of capital which measures the movement of long- and short-term capital.

#### CHAPTER IV

1. Cf Day, p. 58

2. Ibid, p. 78

3. Cf Trade Information Bulletin No 814, *Facts and Figures relating to the American Money Market*, Federal Reserve Annual Reports and Bulletins 1920-, Commerce Year Books for the period.

#### CHAPTER V

1. See Trade Promotion Series, No. 104 *Handbook on American Underwriting of Foreign Securities*, p. 36.

2. See Day, p. 81.

3. Cf. Trade Information Bulletin No 814. *Facts and Figures relating to the American Money Market*; Federal Reserve Annual Reports and Bulletins and Commerce Year Books for the period.

## CHAPTER VI

1. Cf. Trade Information Bulletin No. 814. *Facts and Figures relating to the American Money Market*; Federal Reserve Annual Reports and Bulletins and Commerce Year Books for the period.

## CHAPTER VII

1. Cf. Trade Information Bulletin No. 819: *Balance of International Payments of the United States in 1933*; Federal Reserve Bulletins 1933; *World Economic Review, 1933* (United States section), U. S. Department of Commerce.

## CHAPTER VIII

1. The National City Company negotiated the following loans on behalf of foreign governments, states, municipal bodies and corporations from 1919-30.

Year	Number of foreign issues	Amount issued (to nearest million dollars)
1919-23	9	190
1924	23	733
1925	28	663
1926	34	536
1927	45	883
1928	46	917
1929	17	351
1930	36	746

2. See Edwards, G. W., *Investing in Foreign Securities*, 1926, p. 6. Cf. Table 34 in Appendix: Weighted Average Yield Indexes of American Corporate Bonds and Foreign Bonds

3. Cf. *Midland Bank Monthly Review*, January 1933

4. Material used in this chapter obtained from Trade Promotion Series, No. 104: *Handbook on American Underwriting of Foreign Securities 1914-29*; Trade Information Bulletins Nos. 746 and 802: American Underwriting of Foreign Securities in 1930 and 1931 respectively; Trade Information Bulletins Nos. 814 and 819. Note that criticism of the lending policy of the country is not readily accepted in the United States. Cf. *New Republic* (July 1st, 1931), article entitled 'Fired. A Hoover Expert'. The writer states that Dr. Ray Hall, in dispute with his department officials on the subject of the department report on the balance of international payments in which, quoting from British and American economists, he had cited the wide fluctuations in foreign loans of the United States as

part cause of the world depression, was met by the department objection 'Why all these complaints against the United States?' The official tendency seemed at first to be not to accuse the American lender of fickleness but to place the blame for the fluctuations on the foreign borrowers' inability to supply confidence. But later the Stock Exchange Bill proposed that the sale of foreign bonds in the United States should be prohibited for a period of five years unless payment of interest and principal on the bonds were guaranteed against a default by the borrower by the firm making the issue—an attempt to get at those responsible in the United States for unloading foreign securities on the American investor. A recent report issued by the Senate Committee on Banking describes the activities in the flotation of foreign securities as 'one of the most scandalous chapters in the history of American investment banking' and denounces the American investment banker for failing to check adequately, information received from abroad or to examine foreign economic conditions.

## CHAPTER IX

I. For sources of material used in this chapter cf. Trade Information Bulletins Nos 814 and 819 and *Midland Bank Review*, June 1933, 'The American Balance of Payments'. The following table shows the balances of United States merchandise trade by principal trade regions for the pre-war and post-war periods.

Continent or Trade Area	Excess of exports (+) or imports (-) in millions of dollars								
	1910-14	1921-5	1926-30	1928	1929	1930	1931	1932	1933
Total	+477	+947	+744	+1,037	+841	+782	+334	+280	+225
North America									
Northern	+201	+231	+350	+424	+446	+256	+127	+64	+24
Southern	-47	-70	-57	-64	-33	+1	-53	-37	-1
South	-86	-124	-98	-89	-100	-96	-148	-104	-88
Europe	+514	+1,268	+1,025	+1,126	+1,008	+930	+547	+395	+388
Asia	-137	-444	-619	-514	-637	-409	-188	-70	-134
Oceania	+30	+87	+124	+127	+135	+75	+22	+29	+22
Africa	+2	-2	+18	+27	+22	+25	+27	+12	+15
Latin America	-133	-194	-155	-152	-134	-95	-201	-141	-89
Far East	-96	-343	-474	-358	-482	-321	-153	-37	-104

Note that from 1931, countries which customarily supply the world's industrial markets with various essential raw materials and foodstuffs experienced sharp declines in purchasing power and their purchases of United States manufactured goods were severely curtailed. In some of these countries, the national economy is based largely on the marketing abroad of a single basic commodity. A decline in the price of such a commodity—except perhaps in the unusual case of a product

with an extremely elastic world demand—tends at once to diminish the rate at which foreign currencies can be accumulated for reciprocal purchases. The accumulation in the international money markets of the funds involved in these mutual interchanges of commodities tends normally to influence the trend of price levels and security prices as well as the means and methods of financing international trade itself.

All exports from the United States show a unit price decline of 23 per cent in 1931 and 15 per cent. in 1932, and there was a decline of approximately 22 per cent in the unit value of imports in each year.

Cf. Trade Information Bulletin No 814, pp. 5-6.

## CHAPTER X

1. Cf. *The Nineteenth Century*, May 1934, 'Mr Roosevelt's Dilemma', by Kálmán de Buday, p. 523, where it is suggested that the injurious effects of international capital movements might be counteracted by Equalization Funds, but this 'presupposes a close co-operation between these funds and Central Banks. There is no topic more discussed and less clear in American financial circles than the ways and means by which the British and American Equalisation Funds can and should co-operate'.

2. See *American Economic Review*, June 1930, Noyes, C. R., 'The Gold inflation in the United States 1921-9'.

3. Cf. *Federal Reserve Bulletin*, October 1919.

4. See *Commercial and Financial Chronicle*, December 12th, 1931.

5. Cf. *European Finance*, April 1930, 1st Special Supplement, 'America', vol. xv, for an article on the Federal Reserve System which states: 'Members of the Federal Reserve Board owe their appointments to political instrumentalities even though they are not appointed upon political grounds—since they are appointed by the President by and with the advice and consent of the Senate—they sit in Washington, the storm centre of American politics and they have not necessarily received any professional training as bankers or as economists'.

6. Some of the suggestions made for improving the Federal Reserve System are as follows: It is claimed that raising the rediscount rates above the call loan rates would be of value since that would discourage borrowing to lend on the Stock Exchange. But objections might be raised since it would be possible to argue that business was being penalized. Again, the Federal Reserve Banks could be given the right to extend open market operations to commercial paper and to make loans against stock exchange collateral which would help to equalize the rates on different classes of paper.

7. See *National City Bank of New York (Bulletin)*, June 1933, 'Economic Conditions'; and *Skandinaviska Kreditaktiebolaget*, April 1929, Cassel, G., 'Does the Stock Exchange absorb

Capital', and *American Economic Review*, March 1932, Eiteman, W J, 'The Economics of Brokers' Loans'

8 See *Stock Exchange Practices: Hearings before the Committee on Banking and Currency, U.S. Senate*

9 See Dice, pp 212-17

10. Other recommendations of interest are listed in a 14-point programme drawn up by the Securities Markets Survey Staff of the Twentieth Century Fund, Inc See *Stock Market Control*, edited by Evans, Clark, and others, 1934, pp 162-209

11. See *New York Money Market*, vol. III, p 249

12 Cf Burgess, W R, *The Reserve Banks and the Money Market*, 1927, pp 143-9, and *Acceptance Bulletin*, November 30th, 1930, which points to the usefulness of acceptance credits in financing the heavy seasonal movements of crops to market

13. See *Facts and Figures relating to the American Money Market*, p 19

14 See *New York Money Market*, vol III, p 462

## APPENDIX

**TABLE XXXIII. BROKERS' LOANS. REPORTED BY  
THE NEW YORK STOCK EXCHANGE.**

Net borrowings on demand and on time

*In millions of dollars*

Total	Year	From New York banks and trust companies	From private banks, brokers, foreign banking agencies
	<i>1926</i>		
3,000	March	2,553	447
2,926	June	2,509	417
3,219	September	2,745	474
3,293	December	2,804	489
	<i>1927</i>		
3,290	March	2,790	500
3,369	June	3,065	504
3,913	September	3,340	575
4,433	December	3,812	621
	<i>1928</i>		
4,640	March	3,947	693
4,899	June	4,169	730
3,513	September	4,647	866
6,440	December	3,401	1,039
	<i>1929</i>		
6,804	March	5,713	1,091
7,069	June	5,797	1,272
8,347	September	7,077	1,470
3,990	December	3,370	620
	<i>1930</i>		
4,657	March	4,026	631
3,728	June	3,201	527
3,482	September	3,057	425
1,893	December	1,694	199
	<i>1931</i>		
1,909	March	1,692	217
1,391	June	1,221	170
1,044	September	932	112
587	December	455	132
	<i>1932</i>		
533	March	391	142
243	June	194	49
380	September	292	88
347	December	279	68
	<i>1933</i>		
922	March	247	64
780	June	694	86
897	September	806	91
845	December	776	69

TABLE XXXIV WEIGHTED AVERAGE YIELD INDEXES OF AMERICAN CORPORATE BONDS AND NEW FOREIGN BONDS FLOATED IN THE UNITED STATES, 1919-31.

Year	60 high-grade American corporate bonds	All new foreign bonds	New European bonds	New Canadian bonds	New Latin American bonds	New Far Eastern bonds
1919	5.25	5.97	5.93	5.92	6.81	5.69
1920	5.88	7.69	8.14	7.03	7.47	6.93
1921	5.79	7.54	7.84	6.71	8.00	6.49
1922	4.94	6.63	7.16	5.48	7.48	6.15
1923	4.98	6.42	7.03	5.53	6.63	6.66
1924	4.85	6.56	7.18	4.82	7.83	7.06
1925	4.72	6.51	7.25	4.87	6.44	6.15
1926	4.60	6.51	7.16	5.29	6.71	6.66
1927	4.47	6.14	6.53	4.97	6.55	5.54
1928	4.49	6.09	6.21	5.08	6.29	6.16
1929	4.69	5.81	6.25	5.31	6.50	7.05
1930	4.52	5.49	6.47	4.57	5.71	6.16
1931	4.70	4.67	5.50	4.19	..	5.90

\* Note that the yield on 'all foreign bonds' is higher than the prevailing rate of yield on domestic bonds

Source *Trade Information Bulletin* No. 802, p 14, which states that the index for all new foreign bonds dropped steadily from 1920 as a result of better world credit conditions and a greater familiarity with foreign bonds on the part of American investors. In 1931, however, there was a decline which can not be ascribed to the above reasons. Rather it resulted.

- (1) from the large proportion of the total made up by the Canadian issues,
- (2) from the very small amount of New Latin American issues, the yield on which is usually high,
- (3) from the fact that the two issues comprising the European and Far Eastern index were sold at relatively low yields.

The factors tending to lower the Canadian index were

- (1) a relatively large volume of short-term low yield municipal and provincial issues
- (2) the large proportion of railway and public utility issues in the corporate total.

TABLE XXXV. SHORT TERM INTERNATIONAL CAPITAL MOVEMENTS 1927-33 (Year-end totals)

In millions of dollars

Item	1927	1928	1929	1930	1931	1932	1933
<i>Due to Foreigners</i>							
1 Foreign deposits in U S	1,938	1,580	1,652	1,640	1,025	734	389
2 Foreign funds put out in U S							
(a) into American acceptances	406	564	891	702	298	113	} 63
(b) into brokers' loans, &c	101	332	270	168	55	25	
(c) into Treasury certificates	444	166	618	86	41	2	
3 Undiscounted foreign drawn acceptances	118	99	104	90	20	8	15
4 Miscellaneous*	92	152	104	51	26	31	20
Total due to abroad	3,099	2,893	3,639	2,737	1,465	913	487
<i>Due from Foreigners</i>							
1 American deposits abroad	233	198	190	294	113	150	250
2 Liabilities on unmatured bills	401	509	769	879	449	366	371
3 Overdrafts by foreigners	185	255	202	212	} 521	} 383	} 332
4 Other short-term loans	383	319	285	323			
5 Funds put out in foreign markets	33	24	37	94	156	159	129
Total due from abroad	1,235	1,305	1,483	1,802	1,239	1,058	1,082
Net short-term indebtedness to foreigners†	1,864	1,588	2,156	935	226	145†	595†

\* Includes American drawn bills discounted abroad, overdrafts by American banks and other short-term borrowings

† Except in 1932 and 1933 when the totals due from foreigners exceeded those due to foreigners.



TABLE XXXVI GOLD HOLDINGS OF CENTRAL BANKS AND GOVERNMENTS By years, end-of-year figures 1913-33

*In millions of dollars, converted at par of exchange*

<i>Year</i>	<i>United States</i>	<i>England</i>	<i>France</i>	<i>Germany</i>
1913	1,290	170	678	278
1914	1,206	428	802	498
1915	1,706	389	967	582
1916	2,202	402	652	600
1917	2,523	422	639	573
1918	2,657	523	664	538
1919	2,517	583	694	259
1920	2,451	762	685	260
1921	3,221	763	690	237
1922	3,505	751	708	239
1923	3,833	754	709	111
1924	4,090	757	710	180
1925	3,985	703	710	287
1926	4,083	735	711	436
1927	3,977	741	954	444
1928	3,746	749	1,253	650
1929	3,900	710	1,633	543
1930	4,225	722	2,100	528
1931	4,051	587	2,699	234
1932	4,044	582	3,254	192
1933	4,012	928	3,022	92

TABLE XXXVII. RESERVE BANK CREDIT AND FACTORS IN CHANGES Annual average 1919-32

Averages of daily figures

In millions of dollars

Year	Reserve Bank credit outstanding					Factors of decrease			Factors of increase		
	Bills discounted	Bills bought	U.S. Government securities	Other reserve Bank credits	Total	Monetary Gold Stock	Treasury currency adjusted	Money in circulation †	Member bank reserve balances ‡	Non-member bank deposits &c	Unexpended capital funds
1919	1,904	323	254	142	2,623	3,219	1,252	5,015	1,718	115	456
1920	2,523	385	324	158	3,390	2,869	1,404	5,478	1,835	67	280
1921	1,797	91	264	46	2,198	3,291	1,501	4,950	1,671	28	341
1922	571	159	455	41	1,226	3,802	1,604	4,535	1,781	30	286
1923	736	227	186	56	1,205	4,061	1,736	4,822	1,873	27	280
1924	372	172	402	50	996	4,439	1,757	4,879	2,023	27	263
1925	481	287	359	68	1,195	4,381	1,755	4,869	2,167	31	264
1926	568	281	350	59	1,258	4,452	1,743	4,932	2,209	28	284
1927	442	263	417	53	1,175	4,564	1,774	4,892	2,290	31	300
1928	840	328	297	40	1,505	4,206	1,783	4,783	2,355	29	327
1929	951	241	208	59	1,459	4,283	1,785	4,763	2,358	30	376
1930	272	213	564	38	1,087	4,460	1,781	4,532	2,379	28	389
1931	326	245	669	34	1,274	4,704	1,774	4,959	2,323	97	373
1932	513	70	1,459	24	2,076	4,156	1,823	5,623	2,104	55	356

\* Includes government overdrafts to 1920.

† The monetary gold stock is the most important factor of decrease in the demand for Reserve Bank credit.

‡ Money in circulation is the most important seasonal factor in the demand for Reserve Bank credit.

§ Member bank reserve balances fluctuate largely with changes in member bank deposit liabilities, which reflect chiefly changes in member banks loans and investments.

|| Non-member bank deposits, &c, include all deposits which the Reserve Banks hold for depositors, such as non-member banks, foreign central banks and governments.

TABLE XXXVIII PRINCIPAL ASSETS AND LIABILITIES OF REPORTING MEMBER BANKS IN LEADING CITIES.

*In millions of dollars.*

Year and month	Loans and investments				Investments	Borrowings at the Federal Reserve Banks
	Total	Loans				
		Total	On securities	All other		
September						
1921	14,902	11,672	3,667	8,009	3,229	906
1922	15,446	11,066	3,908	7,158	4,379	145
1923	16,305	11,930	4,028	7,903	4,375	545
1924	17,757	12,725	4,675	8,049	5,032	83
1925	18,978	13,797	5,447	8,349	5,181	403
1926	19,775	14,498	5,847	8,652	5,277	428
1927	20,653	15,066	6,298	8,768	5,587	267
1928	21,871	15,898	6,840	9,059	5,973	822
1929	22,646	17,197	7,654	9,543	5,449	706
1930	23,220	16,859	8,383	8,476	6,361	44
1931	22,078	14,283	6,413	7,870	7,795	127
1932	18,739	11,753	4,524	6,229	7,986	128
1933	16,529	8,540	3,687	4,853	7,989	22

TABLE XXXIX. CAPITAL FLOTATIONS IN THE UNITED STATES 1919-33.

*In millions of dollars*

Year	All issues	Classification of domestic issues				Percentage of domestic corporate issues in the form of	
		Corporate	State, country and municipal	Farm loan banks	War finance corporation	Stocks	Bonds and notes
1919	4,286	2,713	703	110	200	57	43
1920	4,010	2,926	699	.	.	36	64
1921	4,204	2,376	1,236	122	.	12	88
1922	5,245	2,922	1,148	386	..	20	80
1923	4,986	3,237	1,040	393	.	23	77
1924	6,327	3,520	1,380	129	.	24	76
1925	7,118	4,222	1,401	188	.	30	70
1926	7,430	4,574	1,375	131	..	27	73
1927	9,934	6,507	1,523	180	..	27	73
1928	9,992	6,930	1,421	64	..	50	50
1929	11,592	9,377	1,436	.	..	72	28
1930	7,677	4,957	1,498	87	..	31	69
1931	4,023	2,371	1,258	126	..	14	86
1932	1,165	325	755	..	..	7	93
1933	716	160	484	..	..	17	83

TABLE XL ANNUAL INDEX OF THE AMERICAN SECURITIES MARKET NEW YORK STOCK EXCHANGE TRANSACTIONS

Shares sold on the New York Stock Exchange

*In millions*

Year	Number	Year	Number
1919	313	1926	449
1920	224	1927	577
1921	171	1928	921
1922	261	1929	1,125
1923	237	1930	811
1924	282	1931	577
1925	452	1932	425

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